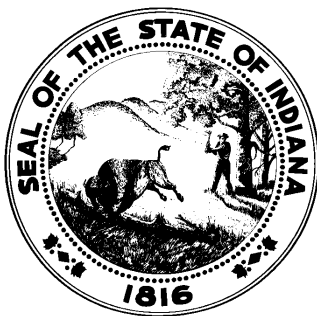




Indiana State Teachers' Retirement Fund

2003 Fiscal Operations Report



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Indiana State Teachers' Retirement Fund

JOSEPH E. KERNAN, Governor
WILLIAM E. CHRISTOPHER, Ph.D., Executive Director

150 West Market Street, Suite 300
Indianapolis, IN 46204-2809

Telephone: (317) 232-3860
Toll-Free: (888) 286-3544
FAX: (317) 232-3882
TTD: (317) 233-3306

November 1, 2003

Home Page: <http://www.in.gov/trf>
E-mail: trf@state.in.us

The Honorable Joseph Kernan
Governor of the State of Indiana
Members of the General Assembly
State House
Indianapolis, IN 46204

Dear Governor Kernan and Members of the General Assembly:

It is our privilege to submit the 2003 Fiscal Operations Report of the Indiana State Teachers' Retirement Fund (ISTRF) as required by I.C.5-10.2-2-1. It is rewarding for Fund administrators and staff to look at a statistical measure of the many accomplishments that have been made over the last several years.

In addition to statistical data, actuarial information, investment performance and benchmark data, charts for comparison by year and by peer (other state Funds) are available. The report also provides financial statements in several key areas.

Our goals and projects from 2001 to the present can be found at the end of the report. While many projects continue to be ongoing in nature, many goals have been met with positive results. Our number one goal remains; to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits and deliver a high level of service to past and present Indiana teachers, while demonstrating responsibility to the citizens of the State of Indiana.

Respectfully submitted,


William E. Christopher, Ph.D.
Executive Director

Mission Statement

The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the State.

Core Values

The Indiana State Teachers' Retirement Fund, as an organization, holds the following core values in all of its working relationships:

- ♦ professionalism, respect, and compassion in dealing with others;
- ♦ diversity, both of ideas and people;
- ♦ open communication, collaboration, and cooperation;
- ♦ integrity and the avoidance of conflicts of interest;
- ♦ courtesy and timeliness;
- ♦ accountability;
- ♦ innovation and flexibility; and
- ♦ commitment to and focus on our mission.

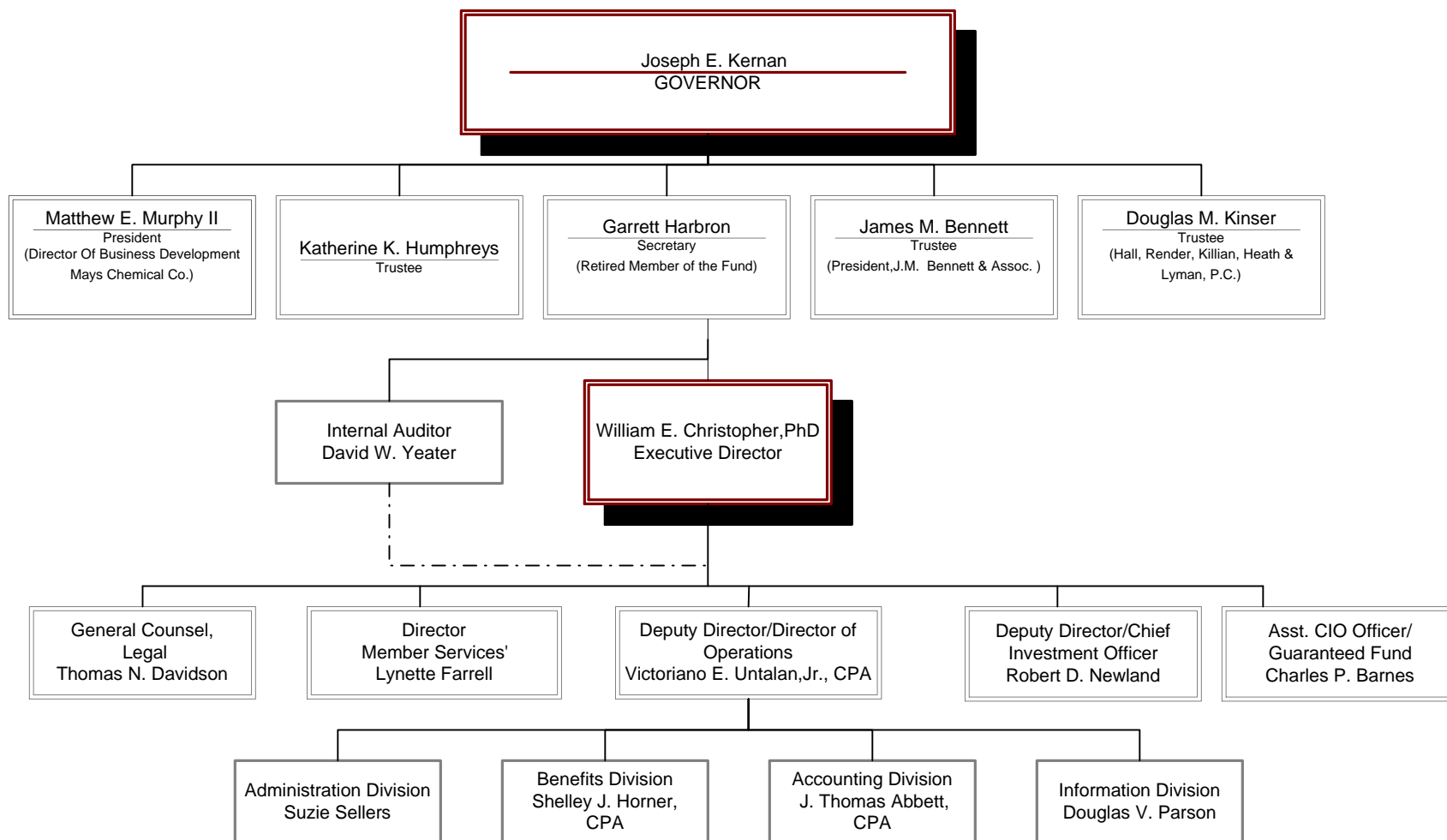


Table of Contents

Financial Statements

- Statement of Plan Assets
- Statement of Changes in Plan Net Assets
- Schedule of Administrative Expenses
- Schedule of Investment Expenses
- Capital Projects
- Schedule of Funding Progress
- Pension Stabilization Fund
- Schedule of Allotments Received and Actual Payouts

Actuarial Section

- Actuarial Summary
- 2002 Actuarial Reported Assets, Accrued Liabilities and Unfunded Liabilities
- 2001 Actuarial Reported Assets, Accrued Liabilities and Unfunded Liabilities
- Closed Plan Balance Sheet
- New Plan Balance Sheet

Investment Section

- Investment Option Rates of Return
- Asset vs Target Asset Allocation
- Investment Manager Asset Allocation Part I
- Investment Manager Asset Allocation Part II
- Cumulative Performance Relative to Target
- Total Fund Ranking
- Total Fund Equity Returns
- Total Fund Fixed Income Returns
- Investment Manager Returns Part I
- Investment Manager Returns Part II
- CEM Defined Benefit Investment Cost Effectiveness Analysis

Statistical Section

- Fund Members
- Benefit Options Selected
- Distributions
- Allocation Changes by Month
- Closed Plan Retired Members by Year
- New Plan Retired Members by Year
- Incoming Call Analysis Report

Benchmarks

- CEM Benefit Administration Benchmarking Results

Operations, Accomplishments and Goals

- 2004 Goals and Accomplishments
- 2003 Goals and Accomplishments
- 2002 Goals and Accomplishments
- 2001 Goals and Accomplishments

Financial Statements

INDIANA STATE TEACHERS' RETIREMENT FUND

STATEMENT OF PLAN ASSETS

AS OF JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Assets		
Cash and Short-Term Investments	\$ 813,083,965.72	\$ 743,438,281.86
Securities Lending Collateral	967,448,636.84	553,452,341.59
	<u>1,780,532,602.56</u>	<u>1,296,890,623.45</u>
Receivables		
Employer Contributions Receivable	35,825,516.00	35,481,632.22
Member Contributions Receivable	27,974,511.11	28,270,488.68
Investments Sold	60,095,218.95	166,877,929.53
Investment Income	31,484,239.28	37,308,245.99
Total Receivables	<u>155,379,485.34</u>	<u>267,938,296.42</u>
Investments, at Fair Value		
Bonds	3,031,449,641.65	3,022,776,332.26
Equity Investments	2,400,127,247.61	2,246,470,767.96
Real Estate (at cost)	260,000.00	260,000.00
Total Investments	<u>5,431,836,889.26</u>	<u>5,269,507,100.22</u>
Furniture and Equipment, at cost, net of accumulated depreciation of \$ 365,873.38 and \$ 365,873.38, respectively	<u>88,843.32</u>	<u>46,085.89</u>
Prepaid Expenses	<u>26.75</u>	<u>26.75</u>
Total Assets	7,367,837,847.23	6,834,382,132.73
Liabilities		
Accounts Payable	3,849,409.02	7,632,646.59
Securities Lending Collateral	967,448,636.84	553,452,341.59
Payable for Investments Purchased	<u>242,882,913.25</u>	<u>544,492,903.64</u>
Total Liabilities	<u>1,214,180,959.11</u>	<u>1,105,577,891.82</u>
Net Assets held in trust for pension benefits	<u>\$ 6,153,656,888.12</u>	<u>\$ 5,728,804,240.91</u>

-UNAUDITED-

INDIANA STATE TEACHERS' RETIREMENT FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE FISCAL YEAR ENDED JUNE 30, 2003 AND 2002

	<u>2003</u>	<u>2002</u>
Additions		
Contributions:		
Employer	\$ 478,148,545.83	\$ 452,680,790.34
Employer - Pension Stabilization	30,000,000.00	30,000,000.00
Employer - 96 Fund	94,083,229.63	83,545,867.69
Fund Member	108,843,965.19	105,996,375.07
Total Contributions	<u>711,075,740.65</u>	<u>672,223,033.10</u>
Investment Income		
Net Appreciation (Depreciation)	138,621,646.78	(379,687,582.19)
Interest	174,797,678.50	215,889,925.60
Dividends	38,389,659.54	19,924,600.11
Securities Lending Income	1,041,853.94	1,353,272.47
	<u>352,850,838.76</u>	<u>(142,519,784.01)</u>
Less Investment Expense:		
Investment Fees	(11,782,712.14)	(12,090,707.02)
Securities Lending Fees	0.00	0.00
Net Investment Income	<u>341,068,126.62</u>	<u>(154,610,491.03)</u>
Transfers from PERF	<u>0.00</u>	<u>3,176,325.58</u>
Adjustments to Accounts Payable	3.93	35.45
Gift from Members	0.00	0.00
Transfer of Outdated Checks	<u>(51,146.91)</u>	<u>777,952.72</u>
Total Additions	<u>1,052,092,724.29</u>	<u>521,566,855.82</u>
Deductions		
Benefits	611,607,468.77	588,378,894.11
Voluntary and Death Withdrawals	7,396,641.39	6,449,873.97
Administrative Expense	4,921,539.85	4,113,921.64
Capital Projects	3,297,613.50	1,238,838.16
Depreciation Expenses	16,813.57	12,745.03
Transfers to PERF	0.00	3,345,500.19
Total Deductions	<u>627,240,077.08</u>	<u>603,539,773.10</u>
Net Increase	424,852,647.21	(81,972,917.28)
Net assets held in trust for pension benefits		
Beginning of year	<u>5,728,804,240.91</u>	<u>5,810,777,158.19</u>
End of Year	\$ <u>6,153,656,888.12</u>	\$ <u>5,728,804,240.91</u>

-UNAUDITED-

ADMINISTRATIVE EXPENSES FISCAL YEAR ENDED JUNE 30, 2003

PERSONAL SERVICES:

TRUSTEES PER DIEMS	\$10,080.00
STAFF SALARIES	\$2,008,898.88
SOCIAL SECURITY	\$153,678.64
RETIREMENT	\$173,597.95
INSURANCE	\$355,590.09
PERSONNEL RECLASSIFICATION/ADDITIONAL STAFFING	\$0.00
TEMPORARY SERVICES	<u>\$1,563.12</u>
Total Personal Services	\$2,703,408.67

PROFESSIONAL & TECHNICAL SERVICES:

ACTUARIAL	\$190,587.00
DATA PROCESSING	\$490,868.46
Y2K Services	\$0.00
HEALTH INSURANCE CONSULTANT	\$9,600.00
DATA PROCESSING CONSULTANT	\$0.00
AUDIT	\$37,852.00
STRATEGIC PLANNING CONSULTING	\$0.00
BENCHMARKING	\$25,000.00
Compensation Classification Consulting	\$0.00
LEGAL SERVICES	\$135,081.77
MEDICAL EXAMINATIONS	\$4,265.25
PENSION DEATH RECORD COMPARISON(PBI)	<u>\$25,862.93</u>
TOTAL PROFESSIONAL & TECHNICAL SERVICES	\$919,117.41

COMMUNICATION:

PRINTING	\$334,002.26
TELEPHONE	\$130,270.07
POSTAGE	\$409,970.97
TRAVEL	<u>\$45,063.51</u>
TOTAL COMMUNICATION	\$919,306.81

MISCELLANEOUS:

ADMINISTRATIVE LEGAL SERVICES	\$8,620.25
MEMBERSHIP & TRAINING	\$72,124.41
EQUIPMENT RENTAL	\$12,705.00
SUPPLIES	\$59,110.06
MAINTENANCE	\$9,544.32
BONDING	\$2,019.00
DEPRECIATION	\$16,813.57
OFFICE RENT	<u>\$215,583.92</u>
TOTAL MISCELLANEOUS	\$396,520.53

TOTAL ADMINISTRATIVE EXPENSES	\$4,938,353.42
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-UNAUDITED-

SCHEDULE OF INVESTMENT EXPENSES

Custodial

National City Corporation	\$568,431.75
The Northern Trust Company	<u>\$50,000.00</u>
<i>Total Custodial</i>	\$618,431.75

Investment Consultant	\$330,000.00
Investment Benchmarking	

Management

Fixed Income Managers

Alliance Capital Mgmt.	\$1,077,146.00
Reams Asset Mgmt.	\$1,502,478.00
Taplin, Canida, Habacht	\$106,657.31

Equity Managers

Barclays	\$132,852.91
Rhumblin	\$90,173.23
PIMCO	\$1,188,003.00
Dresdner	\$761,546.00
Bank of Ireland Asset Management	\$843,586.00
Alliance Capital Management	\$138,014.00
Earnest Partners, LLC	\$118,084.00
GE Asset Management	\$140,931.00
Institutional Capital Corp.	\$145,024.00
Pacific Financial Research, Inc.	\$202,443.00
Enhanced Investment Technologies, Inc.	\$183,548.53
Holt-Smith & Yates Advisors	\$186,141.00
Dresdner RCM Global Advisors	\$184,966.00
Putnam	\$296,928.95
Franklin	\$183,929.76
Valenzuela Capital Partners	\$135,307.24
Aeltus	\$808,105.68
TCW	\$477,907.83
Ariel Capital Management	\$713,338.37
Brandywine Asset Management, Inc.	\$677,658.27
Portfolio Advisors, Inc.	\$345,000.00

Total Money Management Fees	\$10,639,770.08
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Investment Management Software	\$36,000.00
Investment Transaction Fees	\$22,074.53
Administrative Investment Fees	<u>\$136,435.78</u>
Total Investment Fees	\$11,782,712.14

CAPITAL PROJECTS

	TRF SHARED COST			PERF/TRF
	<u>FISCAL YEAR 2003</u>	<u>LIFE TO DATE</u>	<u>TOTAL PROJECT</u>	<u>TOTAL PROJECT COST</u>
NEW RETIREMENT INFORMATION SYSTEM				
SYSTEM DESIGN AND DEVELOPMENT	\$ 3,138,853.50	\$ 7,053,701.93	\$10,192,555.43	\$ 19,075,508.00
PROJECT QUALITY ASSURANCE	\$ -	\$ 593,742.50	\$ 593,742.50	\$ 869,673.00
PROJECT MANAGER	\$ -	\$ 611,470.00	\$ 611,470.00	\$ 1,343,881.37
OUTSOURCING SERVICES	\$ 158,760.00	\$ 158,760.00	\$ 158,760.00	N/A
TOTAL CAPITAL PROJECTS	\$ 3,297,613.50	\$ 8,417,674.43	\$ 11,556,527.93	\$ 21,289,062.37

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/77	\$346	\$2,145	\$1,799	16.13%	\$892	201.68%
6/30/79	417	2,582	2,165	16.15%	1,025	211.22%
6/30/81	484	2,957	2,473	16.37%	1,195	206.95%
6/30/83	747	3,338	2,591	22.38%	1,350	191.93%
6/30/85	1,091	4,023	2,932	27.12%	1,520	192.89%
6/30/87	1,409	4,837	3,428	29.13%	1,752	195.66%
6/30/89	1,737	6,205	4,468	27.99%	2,045	218.48%
6/30/91	2,190	7,182	4,992	30.49%	2,279	219.04%
6/30/92	2,496	7,949	5,453	31.40%	2,416	225.70%
6/30/93	2,812	8,508	5,696	33.05%	2,536	224.61%
6/30/94	2,768	9,087	6,319	30.46%	2,615	241.64%
6/30/95	3,103	9,675	6,572	32.07%	2,729	240.82%
6/30/96	3,263	10,331	7,068	31.58%	2,879	245.50%
6/30/97	3,750	11,044	7,294	33.96%	2,985	244.39%
6/30/98	4,266	11,779	7,513	36.22%	3,095	242.75%
6/30/99	4,971	12,671	7,700	39.23%	3,294	233.76%
6/30/00	5,578	13,115	7,537	42.53%	3,283	229.58%
6/30/01	5,810	13,524	7,714	42.96%	3,318	232.49%
6/30/02	6,176	14,665	8,489	42.11%	3,610	235.15%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(DOLLARS IN THOUSANDS)

YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS (a)	CONTRIBUTED BY EMPLOYERS (b)	CONTRIBUTED BY THE STATE (c)	PERCENTAGE CONTRIBUTED ((b + c) / a)
1981	\$181,640	\$2,858	\$107,588	60.80%
1983	181,575	2,503	93,207	52.71%
1985	214,776	5,910	174,399	83.95%
1987	236,695	6,810	129,907	57.76%
1989	319,429	7,804	154,627	50.85%
1991	357,575	8,539	232,861	67.51%
1992	394,291	9,377	197,250	52.40%
1993	413,622	9,180	194,900	49.34%
1994	433,044	11,013	219,782	53.30%
1995	456,835	10,977	228,200	52.36%
1996	488,278	15,907	297,451	64.18%
1997	508,939	28,761	508,867	105.64%
1998	508,260	41,098	424,252	91.56%
1999	524,815	56,650	555,700	116.68%
2000	547,532	70,641	576,800	118.25%
2001	537,789	83,285	605,900	128.15%
2002	572,226	100,826	465,400	98.95%
2003	638,541	111,931	490,300	94.31%

PENSION STABILIZATION FUND

DATE	TRANSACTION DESCRIPTION	CONTRIBUTIONS	INTEREST EARNED	BALANCE
1995				
JULY 1	ESTABLISHMENT OF ACCOUNT			\$439,700,498.50
1996				
JUNE 30	CONTRIBUTIONS FROM STATE	\$25,000,000.00		\$464,700,498.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$494,700,498.50
JUNE 30	CONTRIBUTIONS FROM STATE	\$92,851.68		\$494,793,350.18
JUNE 30	INTEREST CREDITED		\$39,573,044.87	\$534,366,395.05
1997				
JUNE 30	CONTRIBUTIONS FROM STATE	\$24,999,998.97		\$559,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$200,000,000.00		\$759,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$93,567.95		\$759,459,961.97
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$789,459,961.97
JUNE 30	INTEREST CREDITED		\$45,421,143.58	\$834,881,105.55
1998				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$909,881,105.55
JUNE 30	CONTRIBUTIONS FROM STATE	\$78,286.28		\$909,959,391.83
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$939,959,391.83
JUNE 30	INTEREST CREDITED		\$66,790,488.44	\$1,006,749,880.27
1999				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$1,081,749,880.27
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,639.23		\$1,081,825,519.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,111,825,519.50
JUNE 30	INTEREST CREDITED		\$80,539,990.42	\$1,192,365,509.92
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME		\$148,512,367.47	\$1,340,877,877.39
2000				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,465,877,877.39
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$37,500,000.00		\$1,503,377,877.39
JUNE 30	CONTRIBUTIONS FROM STATE	\$38,810.02		\$1,503,416,687.41
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$15,506,789.63		\$1,518,923,477.04
JUNE 30	INTEREST/EARNINGS CREDITED		\$117,863,098.59	\$1,636,786,575.63
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME		\$35,860,604.81	\$1,672,647,180.44
2001				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,797,647,180.44
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,827,647,180.44
JUNE 30	CONTRIBUTIONS FROM STATE	\$45,735.83		\$1,827,692,916.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,650,613.19		\$1,847,343,529.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$14,302,550.56)	\$1,833,040,978.90
2002				
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,863,040,978.90
JUNE 30	CONTRIBUTIONS FROM STATE	\$43,876.37		\$1,863,084,855.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$13,798,154.19		\$1,876,883,009.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$90,065,130.79)	\$1,786,817,878.67
2003				
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,816,817,878.67
JUNE 30	CONTRIBUTIONS FROM STATE	\$34,359.51		\$1,816,852,238.18
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,287,539.68		\$1,836,139,777.86
JUNE 30	INTEREST/EARNINGS CREDITED	\$23,654,725.65		\$1,859,794,503.51

-UNAUDITED-

SCHEDULE OF ALLOTMENTS RECEIVED AND ACTUAL PAYOUTS

FISCAL YEAR 02-03

STATE PENSION(100-745)				COLA'S (100-743)		
MONTH*	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)
2002-03						
JULY	\$32,720,972	\$35,341,667	\$2,620,695	\$2,961,841	\$3,991,667	\$1,029,826
AUGUST	\$34,894,350	\$35,341,667	\$447,317	\$2,940,784	\$3,991,667	\$1,050,883
SEPT.	\$34,477,412	\$35,341,667	\$864,255	\$2,919,557	\$3,991,667	\$1,072,110
OCT.	\$34,135,816	\$35,341,667	\$1,205,851	\$2,890,064	\$3,991,667	\$1,101,603
NOV.	\$33,790,472	\$35,341,667	\$1,551,195	\$2,868,221	\$3,991,667	\$1,123,446
DEC.	\$33,508,413	\$35,341,667	\$1,833,254	\$2,839,921	\$3,991,667	\$1,151,746
JAN.	\$33,521,647	\$35,341,667	\$1,820,019	\$3,311,796	\$3,991,667	\$679,871
FEB.	\$33,519,046	\$35,341,667	\$1,822,621	\$3,279,788	\$3,991,667	\$711,879
MARCH	\$33,433,315	\$35,341,667	\$1,908,351	\$3,253,289	\$3,991,667	\$738,378
APRIL	\$33,471,807	\$35,341,667	\$1,869,859	\$3,224,562	\$275,000	(\$2,949,562)
MAY	\$33,240,318	\$35,341,667	\$2,101,349	\$3,199,166	\$0	(\$3,199,166)
JUNE	<u>\$34,098,893</u>	<u>\$35,341,667</u>	<u>\$1,242,773</u>	<u>\$3,141,299</u>	<u>\$0</u>	<u>(\$3,141,299)</u>
	<u>\$404,812,460.32</u>	<u>\$424,100,000.00</u>	<u>\$19,287,539.68</u>	<u>\$36,830,288.00</u>	<u>\$36,200,000.03</u>	<u>(\$630,287.97)</u>

* MONTH IS FOR THE MONTH BENEFITS ARE PAYABLE FOR, NOT THE MONTH
THEY ARE PAID IN (i.e.; MONTH OF JULY IS PAID ON AUGUST 1.)

-UNAUDITED-

Actuarial Section

INDIANA STATE TEACHERS' RETIREMENT FUND

ACTUARIAL SUMMARY

	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>CHANGE</u>
PRE- 96 FUND UNFUNDED ACCRUED LIABILITY	\$7,942,425,773	\$7,332,289,878	\$610,135,895
96 FUND UNFUNDED ACCRUED LIABILITY	<u>\$545,660,932</u>	<u>\$380,776,531</u>	<u>\$164,884,401</u>
TOTAL ACTUARIAL LIABILITY	<u>\$8,488,086,705</u>	<u>\$7,713,066,409</u>	<u>\$775,020,296</u>

ACTUARIAL ANALYSIS OF CHANGE IN ACTUARIAL LIABILITY FROM PREVIOUS YEAR'S VALUATION:

PRE - 96 FUND:

DURING THE YEAR ENDED JUNE 30, 2002, UNFUNDED ACTUARIAL ACCRUED LIABILITY IN THE CLOSED PLAN INCREASED \$610.1 MILLION. THE INCREASE WAS THE RESULT OF THE ACTUARIAL VALUE OF PLAN ASSETS INCREASING BY \$191.9 MILLION, WHILE THE ACTUARIAL ACCRUED LIABILITY WAS INCREASING BY \$802.0 MILLION.

96 FUND:

DURING THE YEAR ENDED JUNE 30, 2002, UNFUNDED ACTUARIAL ACCRUED LIABILITY IN THE 1996 PLAN INCREASED \$164.9 MILLION. THE NORMAL GROWTH IN LIABILITIES FOR THIS PLAN IS A RESULT OF NEW TEACHERS BEING HIRED AND EXISTING TEACHERS EARNING ANOTHER YEAR OF BENEFIT SERVICE. IN ADDITION, THE ACTUARIAL ACCRUED LIABILITY CONTINUES TO INCREASE AS A RESULT OF THE PRIOR SERVICE RENDERED BY FORMER CLOSED PLAN MEMBERS WHOSE TOTAL SERVICE IS NOW COVERED BY THE 1996 PLAN AS A RESULT OF REHIRE OR CHANGE IN EMPLOYMENT.

NOTE:

THE FOLLOWING TWO PAGES CONTAIN ACTUARIAL DETAILS FOR THE FISCAL YEARS ENDED JUNE 30, 2001 AND JUNE 30, 2002.

REPORTED ASSETS

The accrued assets at market value as of June 30, 2002 were reported to be \$5,722,753,180 and were allocated for valuation purposes as follows:

Reported Assets (Market Value Basis)

<u>Reserve Allocation</u>	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
Member Reserves:			
Active and Inactive	\$2,551,239,549	\$270,056,637	\$2,821,296,186
Retired	565,804,709	1,640,952	567,445,661
Total Member Reserves	3,117,044,258	271,697,589	3,388,741,847
Employer Reserves:			
Active	-	289,162,091	289,162,091
Retired			
Pension Stabilization Fund	1,786,817,879	-	1,786,817,879
Other	243,312,830	14,718,533	258,031,363
Total	2,030,130,709	14,718,533	2,044,849,242
Total Employer Reserves	2,030,130,709	303,880,624	2,334,011,333
Total Reserves	\$5,147,174,967	\$575,578,213	\$5,722,753,180

Actuarial Accrued Liability: Computed and Unfunded

	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
Retired Member and Beneficiaries:			
Computed accrued liability	\$4,411,727,837	\$17,338,655	\$4,429,066,492
Allocated assets (market value)	2,595,935,418	16,359,485	2,612,294,903
Funding Value adjustment	205,860,864	1,297,328	207,158,192
Unfunded Accrued Liability	1,609,931,555	(318,158)	1,609,613,397
Active and Inactive Members:			
Computed accrued liability	9,086,050,193	1,149,544,549	10,235,594,742
Allocated assets (market value)	2,551,239,549	559,218,728	3,110,458,277
Funding Value adjustment	202,316,426	44,346,731	246,663,157
Unfunded Accrued Liability	6,332,494,218	545,979,090	6,878,473,308
ISTRF Total:			
Computed accrued liability	13,497,778,030	1,166,883,204	14,664,661,234
Allocated assets (market value)	5,147,174,967	575,578,213	5,722,753,180
Funding Value adjustment	408,177,290	45,644,059	453,821,349
Unfunded Accrued Liability	\$7,942,425,773	\$545,660,932	\$8,488,086,705

Reported Assets

The accrued assets at market value as of June 30, 2001 were reported to be \$5,810,759,564 and were allocated for valuation purposes as follows:

Reserve Allocation	Closed Plan	New Plan	Total
Member Reserves:			
Active and Inactive	\$2,668,945,655	\$210,932,183	\$2,879,877,838
Retired	618,238,221	1,138,375	619,376,596
Total Member Reserves	3,287,183,876	212,070,558	3,499,254,434
Employer Reserves:			
Active	-	223,259,318	223,259,318
Retired			
Pension Stabilization Fund	1,833,040,979	-	1,833,040,979
Other	243,272,958	11,931,875	255,204,833
Total	2,076,313,937	11,931,875	2,088,245,812
Total Employer Reserves	2,076,313,937	235,191,193	2,311,505,130
Total Reserves	\$5,363,497,813	\$447,261,751	\$5,810,759,564

ACTUARIAL ACCRUED LIABILITY: COMPUTED AND UNFUNDED

Amounts at June 30, 2001	Closed Plan	New Plan	Total
Retired Members and Beneficiaries:			
Computed accrued liability	\$ 4,121,359,222	\$12,080,801	\$ 4,133,440,023
Allocated assets	2,694,552,158	13,070,250	2,707,622,408
Unfunded Accrued Liability	1,426,807,064	(989,449)	1,425,817,615
Active and Inactive Members:			
Computed accrued liability	8,574,428,469	815,957,481	9,390,385,950
Allocated assets	2,668,945,655	434,191,501	3,103,137,156
Unfunded Accrued Liability	5,905,482,814	381,765,980	6,287,248,794
ISTRF Total:			
Computed accrued liability	12,695,787,691	828,038,282	13,523,825,973
Allocated assets	5,363,497,813	447,261,751	5,810,759,564
Unfunded Accrued Liability	\$ 7,332,289,878	\$380,776,531	\$ 7,713,066,409

The report of the annual actuarial valuation as of June 30, 2001

CLOSED PLAN BALANCE SHEET **SUMMARY STATEMENT OF FUND RESOURCES AND** **OBLIGATIONS**

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. Funding value of system assets			
1. Net assets from Fund Financial statements	\$3,117,044,258	\$2,030,130,710	\$5,147,174,968
2. Funding value adjustment	<u>247,185,434</u>	<u>160,991,856</u>	<u>408,177,290</u>
3. Funding value of assets	3,364,229,692	2,191,122,566	5,555,352,258
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,879,531,199	1,879,531,199
2. For unfunded actuarial accrued liability	<u>0</u>	<u>7,942,425,774</u>	<u>7,942,425,774</u>
3. Total	0	9,821,956,973	9,821,956,973
C. Total Present and Future Resources	\$3,364,229,692	\$12,013,079,539	\$15,377,309,231

ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. To retired members and beneficiaries			
1. Annual benefits	\$607,004,582	\$3,801,054,120	\$4,408,058,702
2. Reserve*	<u>3,669,135</u>	<u>0</u>	<u>3,669,135</u>
3. Totals	610,673,717	3,801,054,120	4,411,727,837
B. To vested terminated members	194,088,740	148,819,638	342,908,378
C. To present active members			
1. Allocated to service rendered prior to valuation date	2,559,467,236	6,183,674,580	8,743,141,816
2. Allocated to service likely to be rendered after valuation date	<u>0</u>	<u>1,879,531,199</u>	<u>1,879,531,200</u>
3. Total	2,559,467,236	8,063,205,779	10,622,673,016
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$3,364,229,693	\$12,013,079,537	\$15,377,309,231

**The Retired Member Annuity Reserve has a value of less than zero on a Market Value basis.*

NEW PLAN BALANCE SHEET

SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. Funding value of system assets			
1. Net assets from Fund Financial statements	\$271,697,589	\$303,880,624	\$575,578,213
2. Funding value adjustment	<u>21,545,952</u>	<u>24,098,107</u>	<u>45,644,059</u>
3. Funding value of assets	293,243,541	327,978,731	621,222,272
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,204,374,700	1,204,374,700
2. For unfunded actuarial accrued liability	<u>0</u>	<u>545,660,933</u>	<u>545,660,933</u>
3. Total	0	1,750,035,633	1,750,035,633
C. Total Present and Future Resources	\$293,243,541	\$2,078,014,364	\$2,371,257,905

ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. To retired members and beneficiaries			
1. Annual benefits	\$1,760,440	\$15,567,573	\$17,328,013
2. Reserve*	<u>10,642</u>	<u>0</u>	<u>10,642</u>
3. Totals	1,771,082	15,567,573	17,338,655
B. To vested terminated members	28,009,912	12,558,540	40,568,452
C. To present active members			
1. Allocated to service rendered prior to valuation date	263,462,548	845,513,550	1,108,976,098
2. Allocated to service likely to be rendered after valuation date	<u>0</u>	<u>1,204,374,700</u>	<u>1,204,374,700</u>
3. Total	263,462,548	2,049,888,250	2,313,350,798
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$293,243,542	\$2,078,014,363	\$2,371,257,905

**The Retired Member Annuity Reserve has a value of less than zero on a Market Value basis.*

Investment Section

ANNUITY SAVINGS ACCOUNT INVESTMENT OPTION RATES OF RETURN
FOR THE FISCAL YEAR ENDING JUNE 30:

	2003	2002	2001	2000	1999*
S&P500 Index Fund	0.31%	-17.96%	-14.71%	7.21%	36.37%
Small Cap Equity Fund	-1.33%	-4.46%	7.58%	38.65%	34.66%
International Fund	-7.15%	-11.98%	-24.13%	26.27%	29.74%
Bond Fund	13.85%	5.54%	11.08%	5.99%	1.04%
Guaranteed Fund	7.00%	7.50%	7.75%	7.75%	8.00%

*Results for S&P500 Index, Small Cap Equity and International are for 10/1/98 to 6/30/99.

RATES OF RETURN FOR EMPLOYER INVESTMENTS
FOR THE FISCAL YEAR ENDING JUNE 30:

	2003	2002	2001	2000	1999*
Large Cap Equities	0.76%	-17.35%	-13.91%	6.74%	30.03%
Mid Cap Equities	-5.10%	-8.60%	1.87%	29.31%	0.00%
Small Cap Equities	-0.76%	-4.26%	7.87%	39.56%	35.26%
International Equities	-8.23%	-11.72%	-24.38%	23.39%	29.15%
Fixed Income	12.17%	6.02%	11.23%	4.83%	3.07%
COMPOSIT RETURN	6.17%	-2.60%	2.08%	10.05%	12.35%

*Results for S&P500 Index, Small Cap Equity and International are for 10/1/98 to 6/30/99.

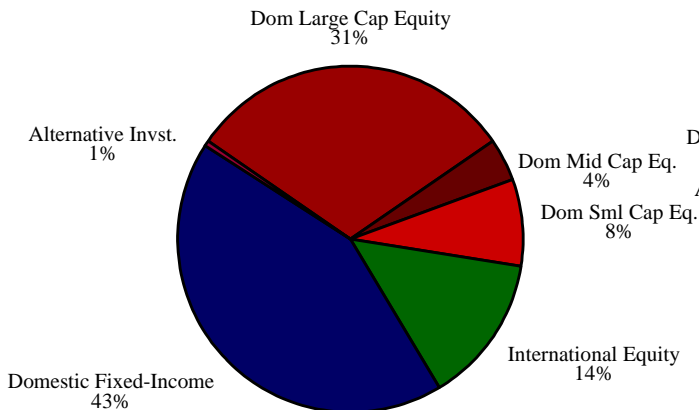
FUND ASSET ALLOCATION

	@6/30/03	@6/30/02	@6/30/01	@6/30/00	@6/30/99
Large Cap Equities	25.4%	26.6%	23%	28%	28%
Mid Cap Equities	2.2%	5.9%	5%	6%	0%
Small Cap Equities	8.8%	4.5%	6%	6%	5%
International Equities	8.7%	16.7%	8%	8%	5%
Alternative Investments	0.3%	0.1%	0%	0%	0%
Fixed Income	54.6%	46.3%	57%	52%	62%
TOTAL	100.0%	100.0%	100%	100%	100%

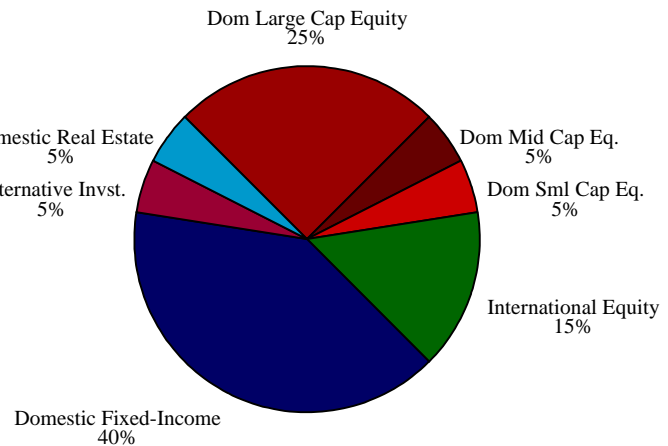
Actual vs Target Asset Allocation

The top left chart shows the Fund's asset allocation as of June 30, 2003. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the Fund's asset allocation and the target allocation versus the CAI Public Fund Sponsor Database.

Actual Asset Allocation

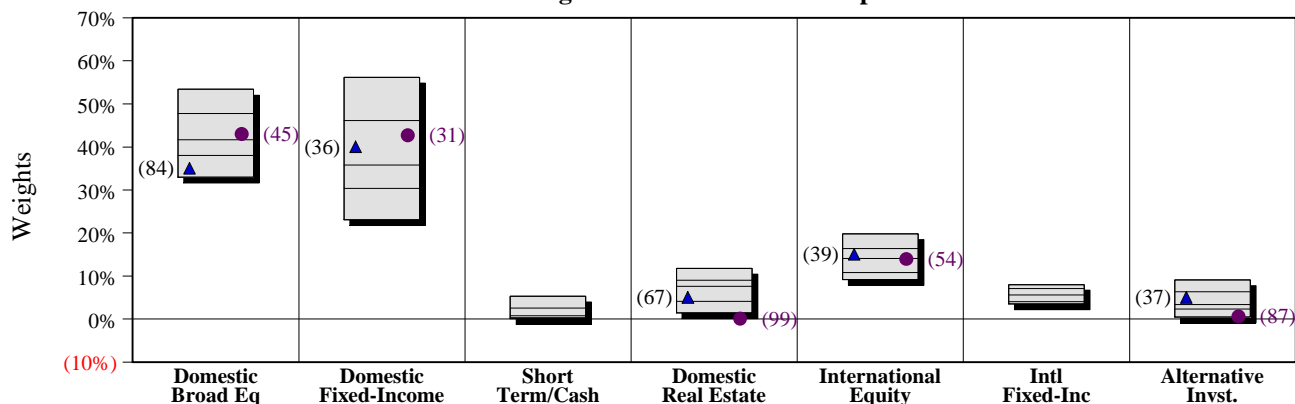


Target Asset Allocation



Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Dom Large Cap Equity	1,039,051	30.8%	25.0%	5.8%	194,850
Dom Mid Cap Eq.	135,906	4.0%	5.0%	(1.0%)	(32,934)
Dom Sml Cap Eq.	274,485	8.1%	5.0%	3.1%	105,645
International Equity	469,089	13.9%	15.0%	(1.1%)	(37,432)
Domestic Fixed-Income	1,440,648	42.7%	40.0%	2.7%	89,926
Alternative Invst.	17,625	0.5%	5.0%	(4.5%)	(151,215)
Domestic Real Estate	0	0.0%	5.0%	(5.0%)	(168,840)
Total	3,376,803	100.0%	100.0%		

Asset Class Weights vs CAI Public Fund Sponsor Database



	Domestic Broad Eq	Domestic Fixed-Income	Short Term/Cash	Domestic Real Estate	International Equity	Intl Fixed-Inc	Alternative Invst.
10th Percentile	53.33	56.13	5.27	11.76	19.77	7.97	9.01
25th Percentile	47.75	46.13	2.53	9.05	16.41	7.07	6.36
Median	41.68	35.80	0.79	7.59	14.12	5.59	3.40
75th Percentile	38.05	30.37	0.31	4.12	10.81	4.07	2.31
90th Percentile	32.88	23.03	0.07	1.40	9.12	3.45	0.44
Fund ●	42.92	42.66	-	0.00	13.89	-	0.52
Target ▲	35.00	40.00	-	5.00	15.00	-	5.00
% Group Invested	98.80%	100.00%	59.04%	44.58%	86.75%	24.10%	40.96%

* Current Quarter Target = 40.0% L/B Agg, 25.0% S&P 500, 15.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Wilshire Real Estate Idx and 5.0% Post Venture Cap Idx.

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2003, with the distribution as of March 31, 2003.

Asset Distribution Across Investment Managers

	June 30, 2003		March 31, 2003	
	Market Value	Percent	Market Value	Percent
Employer Assets	\$3,376,803,479	55.44%	\$2,943,760,543	53.28%
Domestic Large Cap Equity	1,039,050,642	17.06%	877,407,391	15.88%
Domestic Mid Cap Equity	135,906,227	2.23%	116,074,393	2.10%
Domestic Small Cap Equity	274,484,714	4.51%	218,175,469	3.95%
International Equity	469,088,908	7.70%	395,132,085	7.15%
Domestic Fixed-Income	1,440,647,649	23.65%	1,325,294,914	23.99%
Alternative Investment	17,625,339	0.29%	11,676,291	0.21%
Employee Assets	\$2,713,974,852	44.56%	\$2,581,604,655	46.72%
Domestic Large Cap Equity	508,033,706	8.34%	465,256,516	8.42%
Domestic Small Cap Equity	262,095,599	4.30%	222,409,346	4.03%
International Equity	59,551,271	0.98%	51,078,373	0.92%
Domestic Fixed-Income	1,884,294,276	30.94%	1,842,860,420	33.35%
Total Fund	\$6,090,778,331	100.0%	\$5,525,365,198	100.0%

Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2003, with the distribution as of June 30, 2002.

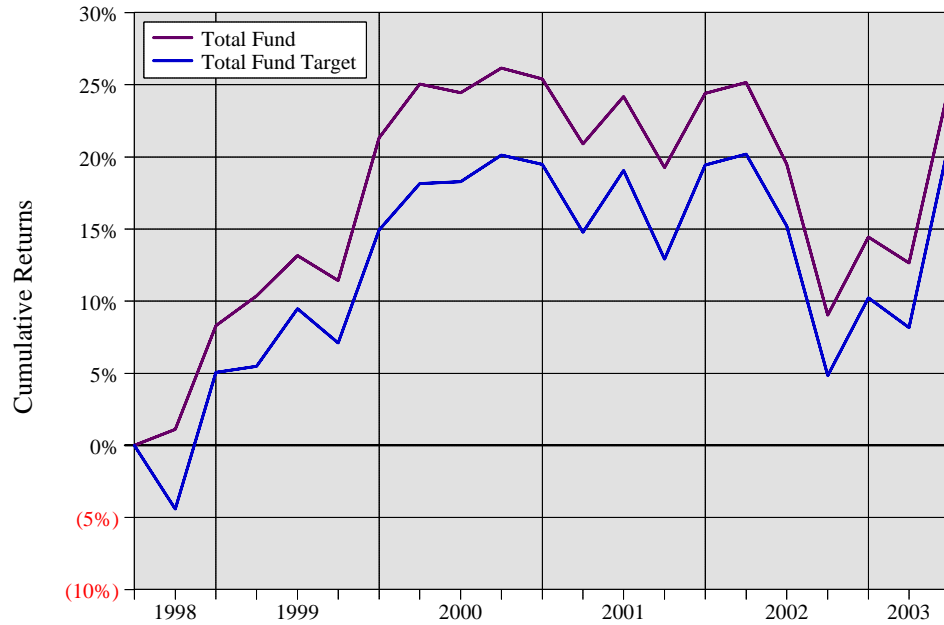
Asset Distribution Across Investment Managers

	June 30, 2003		June 30, 2002	
	Market Value	Percent	Market Value	Percent
Domestic Equity	\$2,219,570,888	36.44%	\$1,967,083,881	34.71%
Large Cap Equity	\$1,547,084,348	25.40%	\$1,331,295,059	23.49%
Passive				
Barclays Global Investors	727,878,123	11.95%	670,138,177	11.83%
Rhumblin	301,810,358	4.96%	186,869,676	3.30%
Enhanced				
PIMCO	297,187,870	4.88%	265,091,665	4.68%
Growth				
Dresdner	33,731,284	0.55%	31,303,152	0.55%
INTECH	41,518,045	0.68%	37,103,106	0.65%
H-S&Y	35,224,069	0.58%	33,479,500	0.59%
Value				
Earnest	21,358,291	0.35%	19,693,370	0.35%
GEAM	30,917,559	0.51%	30,275,500	0.53%
ICAP	25,936,820	0.43%	26,266,471	0.46%
PFR	31,521,929	0.52%	31,074,442	0.55%
Mid Cap Equity	\$135,906,227	2.23%	\$177,198,830	3.13%
Core				
Franklin Associates	84,604,439	1.39%	60,140,201	1.06%
Growth				
Putnam Investments	51,301,788	0.84%	58,495,079	1.03%
Value				
Valenzuela Capital Partners	-	-	58,563,550	1.03%
Small Cap Equity	\$536,580,313	8.81%	\$458,589,992	8.09%
Growth				
Aeltus Capital Management	136,559,442	2.24%	94,727,487	1.67%
TCW Group	66,372,956	1.09%	67,073,781	1.18%
Value				
Ariel Capital Management	187,463,607	3.08%	141,340,723	2.49%
Brandywine Capital Mgmt	146,184,308	2.40%	155,448,001	2.74%
International Equity	\$528,640,179	8.68%	\$576,055,495	10.17%
Alliance Capital Mgmt	183,780,120	3.02%	195,048,809	3.44%
Bank of Ireland	179,260,313	2.94%	196,545,212	3.47%
Dresdner RCM Global	165,599,746	2.72%	184,461,474	3.26%
Domestic Fixed-Income	\$3,324,941,925	54.59%	\$3,120,156,219	55.06%
Alliance Capital Mgmt	1,590,212,385	26.11%	1,479,259,549	26.10%
Reams Asset Management	1,564,713,830	25.69%	1,469,742,361	25.94%
Seix Investment Advisors	-	-	166,194	0.00%
Taplin, Canida & Habacht	68,251,508	1.12%	61,986,556	1.09%
Cash Flow Account	101,764,202	1.67%	109,001,559	1.92%
Alternative Investment	\$17,625,339	0.29%	\$3,709,421	0.07%
Portfolio Advisors	17,625,339	0.29%	3,709,421	0.07%
Total Fund	\$6,090,778,331	100.0%	\$5,667,005,016	100.0%

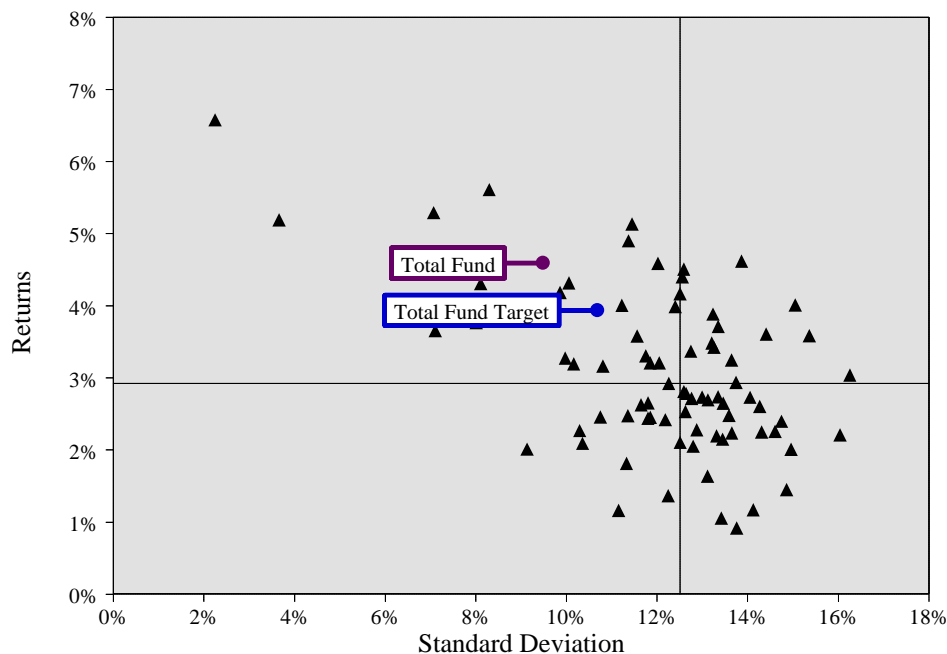
Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the plans in the Public Plan Sponsor Database.

Cumulative Returns Actual vs Target



Five Year Annualized Risk vs Return



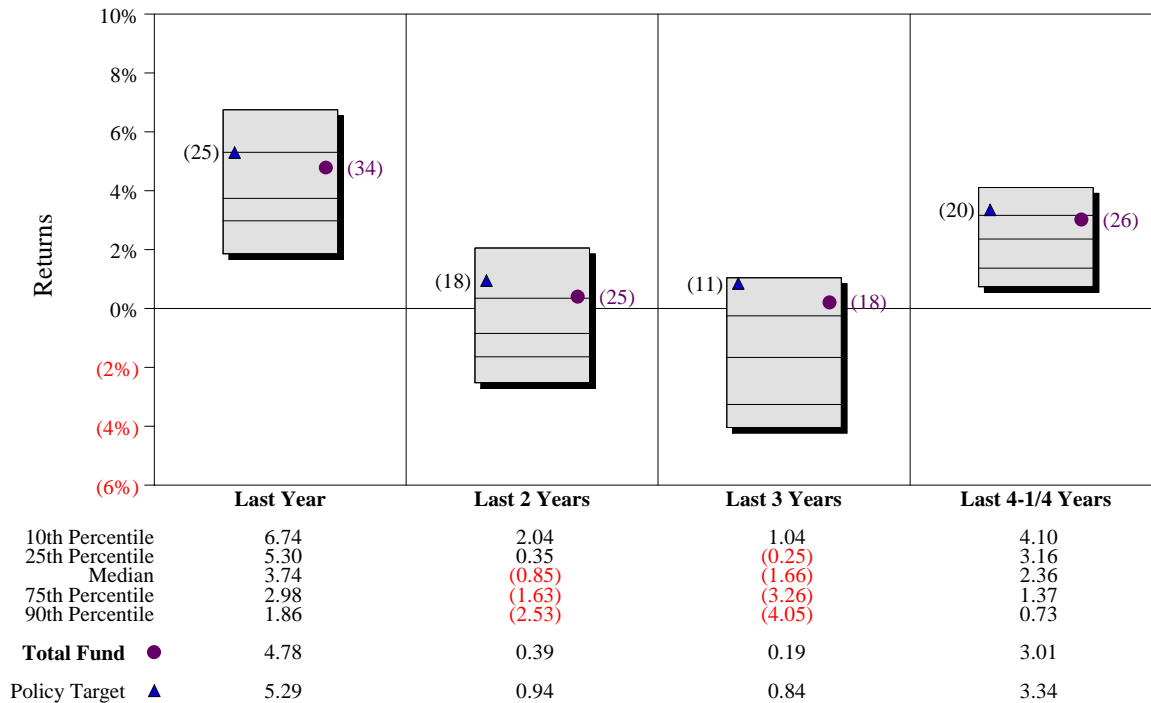
Triangles represent membership of the CAI Public Fund Sponsor Database

* Current Quarter Target = 40.0% L/B Agg, 25.0% S&P 500, 15.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Wilshire Real Estate Idx and 5.0% Post Venture Cap Idx.

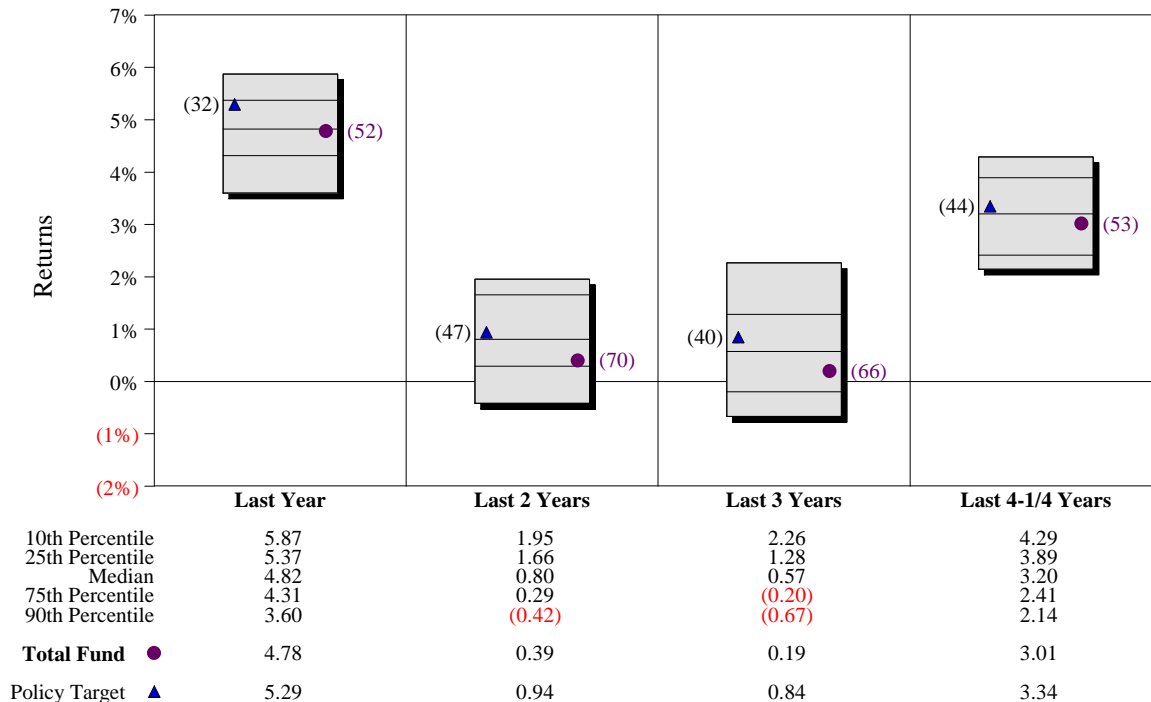
Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the CAI Public Fund Sponsor Database for periods ended June 30, 2003. The first chart is a standard unadjusted ranking. In the second chart each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

CAI Public Fund Sponsor Database



Asset Allocation Adjusted Ranking



* Current Quarter Target = 40.0% L/B Agg, 25.0% S&P 500, 15.0% MSCI EAFE Index, 5.0% Russell 2000, 5.0% S&P Mid Cap 400, 5.0% Wilshire Real Estate Idx and 5.0% Post Venture Cap Idx.

TOTAL DOMESTIC EQUITY PERIOD ENDED JUNE 30, 2003



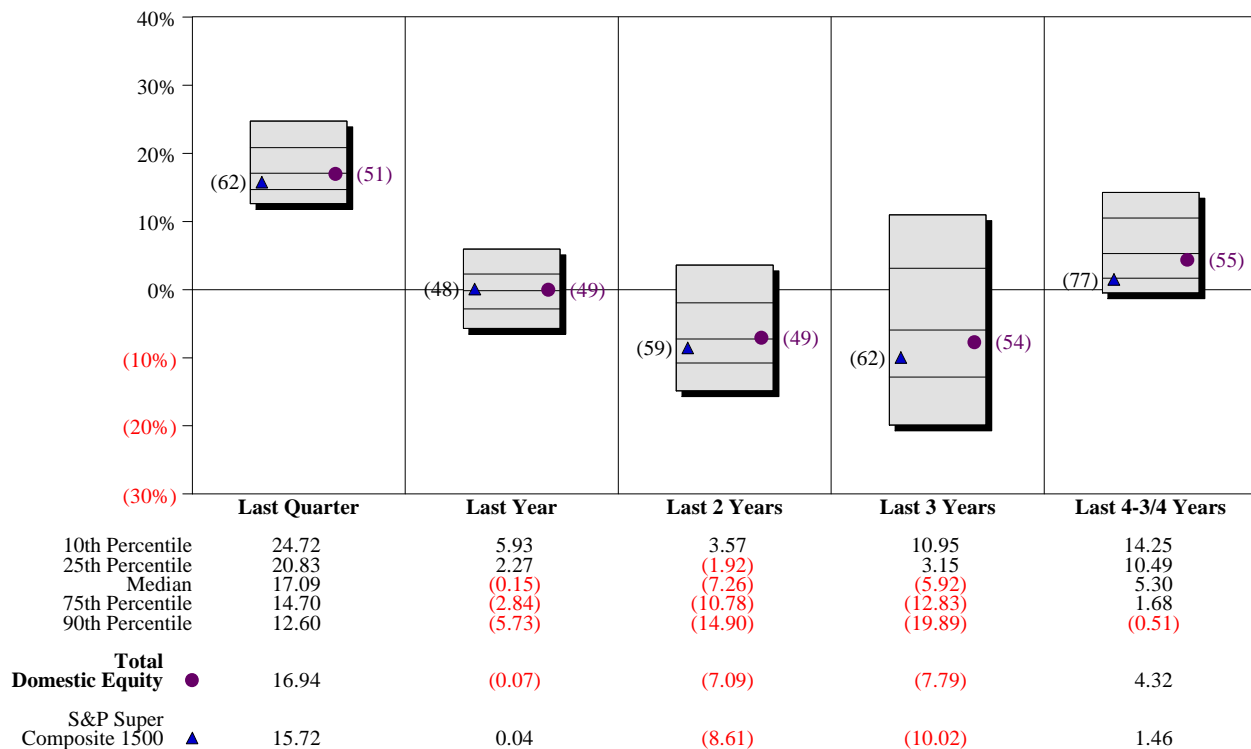
Investment Philosophy

The Total Equity Database is a broad collection of actively managed separate account domestic equity products. Equity funds concentrate their investments in common stocks and convertible securities. Funds included maintain well-diversified portfolios.

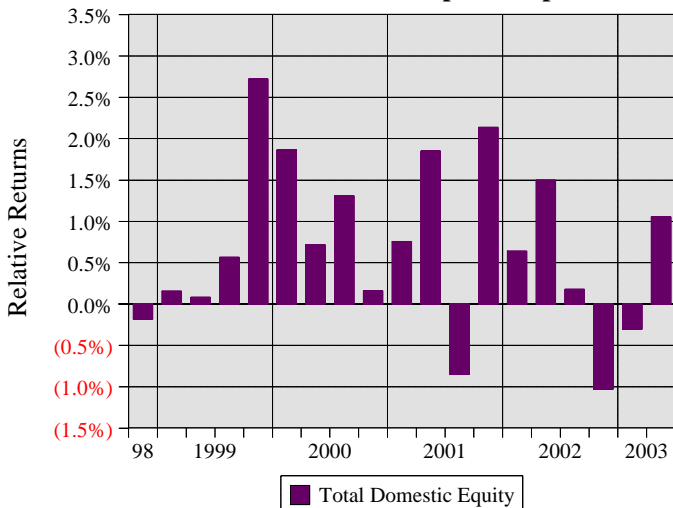
Quarterly Summary and Highlights

- Total Domestic Equity's portfolio posted a 16.94% return for the quarter placing it in the 51 percentile of the CAI Total Domestic Equity Database group for the quarter and in the 49 percentile for the last year.
- Total Domestic Equity's portfolio outperformed the S&P Super Composite 1500 by 1.22% for the quarter and underperformed the S&P Super Composite 1500 for the year by 0.11%.

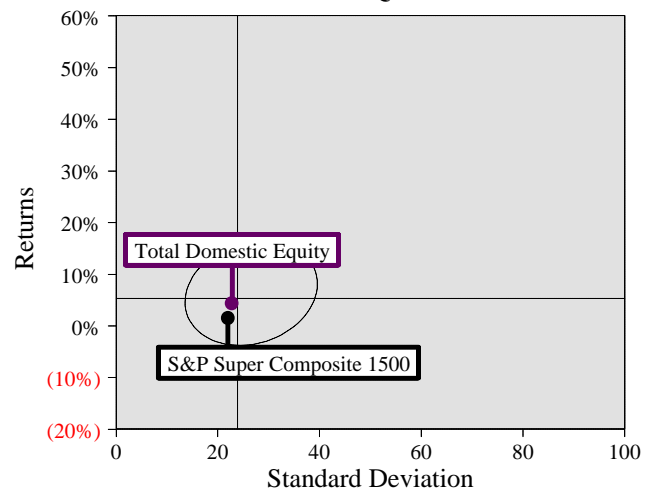
Performance vs CAI Total Domestic Equity Database



Relative Return vs S&P Super Composite 1500



CAI Total Domestic Equity Database Annualized Four And Three-Quarter Year Risk vs Return



TOTAL FIXED-INCOME PERIOD ENDED JUNE 30, 2003



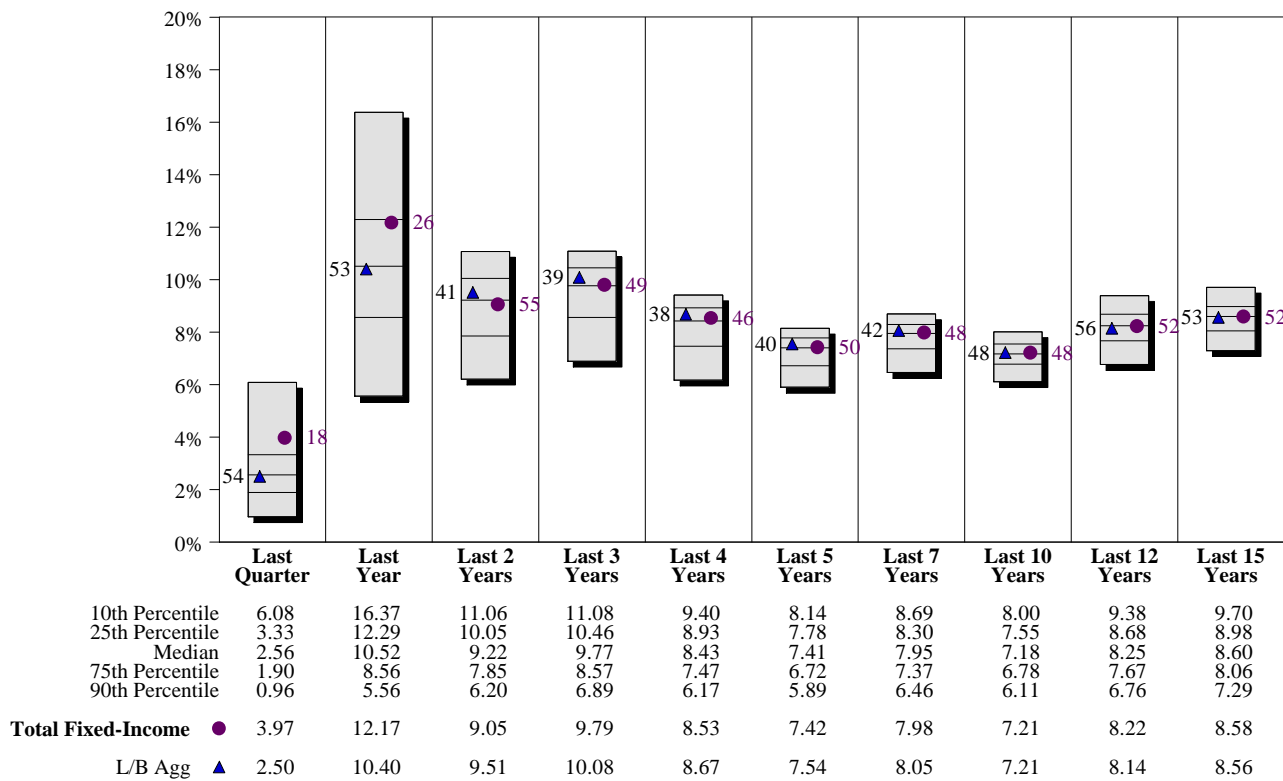
Investment Philosophy

The Total Fixed-Income Database is a broad collection of separate account domestic fixed-income products. Fixed-Income funds concentrate their investments in bonds, preferred stocks, and money market securities.

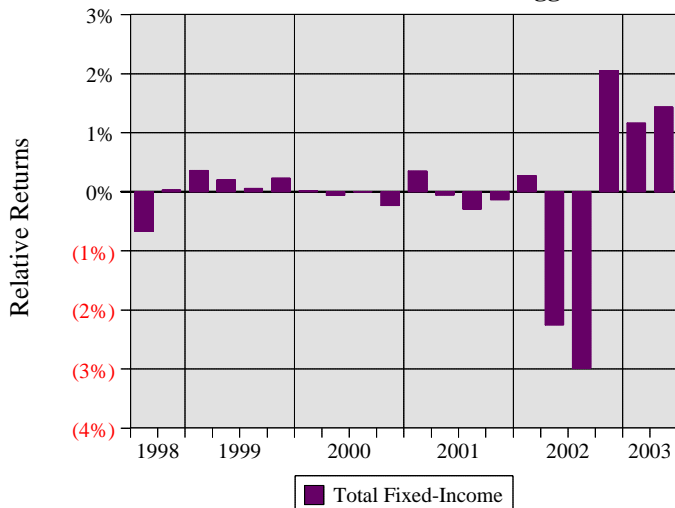
Quarterly Summary and Highlights

- Total Fixed-Income's portfolio posted a 3.97% return for the quarter placing it in the 18 percentile of the CAI Total Domestic Fixed-Inc Database group for the quarter and in the 26 percentile for the last year.
- Total Fixed-Income's portfolio outperformed the L/B Agg by 1.47% for the quarter and outperformed the L/B Agg for the year by 1.77%.

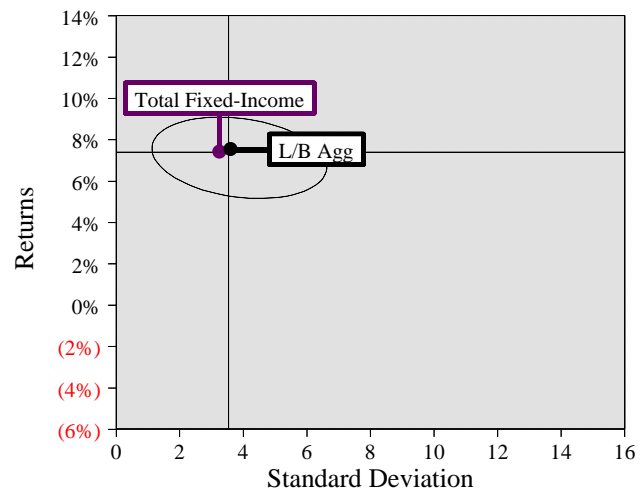
Performance vs CAI Total Domestic Fixed-Inc Database



Relative Return vs L/B Agg



CAI Total Domestic Fixed-Inc Database Annualized Five Year Risk vs Return



Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2003. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the Fund's accounts for that asset class.

Returns for Periods Ended June 30, 2003

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 4 Years	Last 6 Years
Domestic Equity	\$2,219,570,888	31.40%	16.94%	(0.07%)	(7.79%)	(2.64%)	-
Large Cap Equity	\$1,547,084,348	21.89%	15.28%	0.76%	(10.84%)	(6.74%)	-
Passive	\$1,029,688,481	14.57%	15.36%	0.34%	-	-	-
Barclays Global Investors	727,878,123	10.30%	15.36%	0.34%	(11.16%)	(6.88%)	3.11%
Rhumbline	301,810,358	4.27%	15.36%	0.33%	(10.85%)	(7.90%)	2.47%
Enhanced	\$297,187,870	4.20%	15.40%	2.26%	-	-	-
PIMCO	297,187,870	4.20%	15.40%	2.26%	(9.52%)	(5.54%)	4.25%
Standard & Poor's 500	-	-	15.39%	0.25%	(11.20%)	(6.91%)	3.08%
Growth	\$110,473,398	1.56%	13.94%	2.47%	-	-	-
Dresdner	33,731,284	0.48%	10.78%	1.53%	-	-	-
INTECH	41,518,045	0.59%	12.28%	6.34%	-	-	-
H-S&Y	35,224,069	0.50%	19.28%	(0.95%)	-	-	-
Russell 1000 Growth	-	-	14.31%	2.94%	(21.54%)	(11.73%)	0.25%
S&P 500 Growth	-	-	12.17%	2.32%	(17.40%)	(9.59%)	2.43%
Value	\$109,734,599	1.55%	15.52%	(1.30%)	-	-	-
Earnest	21,358,291	0.30%	15.99%	3.30%	-	-	-
GEAM	30,917,559	0.44%	14.13%	(1.17%)	-	-	-
ICAP	25,936,820	0.37%	13.43%	(5.01%)	-	-	-
PFR	31,521,929	0.45%	18.42%	(1.27%)	-	-	-
Russell 1000 Value	-	-	17.27%	(1.02%)	(0.19%)	(2.45%)	5.23%
S&P 500 Value	-	-	18.84%	(1.84%)	(4.62%)	(4.74%)	3.10%
Mid Cap Equity	\$135,906,227	1.92%	17.19%	(5.10%)	(3.52%)	3.81%	-
Franklin Portfolio Assoc.	84,604,439	1.20%	17.65%	0.67%	2.94%	7.00%	12.13%
Putnam Investments	51,301,788	0.73%	16.43%	(6.17%)	(11.39%)	(0.02%)	7.47%
S&P 400 Mid Cap	-	-	17.63%	(0.71%)	0.99%	4.77%	10.24%
Small Cap Equity	\$536,580,313	7.59%	21.95%	(0.76%)	(0.68%)	8.13%	-
Growth	\$202,932,398	2.87%	23.34%	(2.18%)	(22.17%)	-	-
Aeltus Capital Management	136,559,442	1.93%	21.64%	(2.85%)	(12.08%)	(0.50%)	2.67%
TCW Group	66,372,956	0.94%	26.98%	(0.27%)	(31.76%)	(13.28%)	(1.57%)
Russell 2000 Growth	-	-	24.15%	0.69%	(16.66%)	(7.15%)	(1.54%)
Value	\$333,647,915	4.72%	21.12%	(0.35%)	16.66%	-	-
Ariel Capital Management	187,463,607	2.65%	18.23%	1.12%	13.19%	9.45%	12.13%
Brandywine Asset Management	146,184,308	2.07%	25.05%	(0.83%)	20.59%	9.10%	-
Russell 2000 Value	-	-	22.72%	(3.80%)	10.93%	7.84%	7.33%
International Equity	\$528,640,179	7.48%	18.58%	(8.23%)	(15.08%)	(6.30%)	-
Alliance Capital Management	183,780,120	2.60%	19.44%	(5.87%)	(13.11%)	(6.36%)	-
Bank of Ireland	179,260,313	2.54%	20.07%	(9.70%)	(13.07%)	(4.98%)	-
Dresdner RCM	165,599,746	2.34%	16.08%	(9.20%)	(19.33%)	(8.50%)	-
MSCI EAFE Index	-	-	19.27%	(6.46%)	(13.52%)	(6.70%)	(2.39%)
Alternative Investment	\$17,625,339	0.25%	11.04%	9.35%	-	-	-
Portfolio Advisors	17,625,339	0.25%	11.04%	9.35%	-	-	-
Post Venture Cap Index	-	-	34.85%	19.79%	(29.83%)	(16.55%)	(1.15%)

Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2003. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended June 30, 2003

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
Domestic Fixed-Income	\$3,324,941,925	54.59%	3.97%	12.17%	9.05%	9.79%	8.53%
Alliance Capital Mgmt.	1,590,212,385	26.11%	3.81%	13.60%	10.18%	10.70%	9.02%
Alliance Capital Index	-	-	2.50%	10.40%	9.51%	10.07%	8.67%
Reams Asset Management	1,564,713,830	25.69%	4.25%	11.20%	7.47%	9.03%	8.45%
Taplin, Canida & Habacht	68,251,508	1.12%	4.91%	14.50%	11.13%	10.65%	8.49%
Lehman Brothers Agg.	-	-	2.50%	10.40%	9.51%	10.08%	8.67%
Cash Flow Account	101,764,202	1.67%	0.70%	2.73%	2.45%	3.51%	3.76%
Treasury Bills	-	-	0.34%	1.53%	2.08%	3.33%	3.88%
Composite Fund	\$6,090,778,331	100.00%	9.60%	6.17%	1.69%	1.40%	3.50%
Standard & Poor's 500	-	-	15.39%	0.25%	(9.33%)	(11.20%)	(6.91%)
Domestic Equity Database	-	-	18.04%	0.43%	(6.39%)	(5.77%)	(0.58%)
Domestic Fixed Database	-	-	3.05%	10.75%	8.86%	9.23%	8.00%

Defined Benefit Investment Cost Effectiveness Analysis

(for the 5 years ending December 31, 2002)

Indiana State Teachers' Retirement Fund

Prepared September 5, 2003 by:



350 Bay St., Suite 800, Toronto, ON M5H 2S6
Tel: 416-369-0568 Fax: 416-369-0879
www.costeffectiveness.com

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Comparisons are to CEM's extensive pension performance database.

- 139 US pension funds participate. They represent 30% of U.S. defined benefit assets. The median US fund had assets of \$3.4 billion, while the average US fund had assets of \$7.0 billion. Total participating US assets were \$1.4 trillion.
- 88 Canadian pension funds participate. They represent 70% of Canadian defined benefit assets. The median Canadian fund had assets of \$0.9 billion, while the average Canadian fund had assets of \$4.2 billion. Total participating Canadian assets were \$0.4 trillion.
- The most meaningful comparisons for your returns and value added performance are to the US universe.

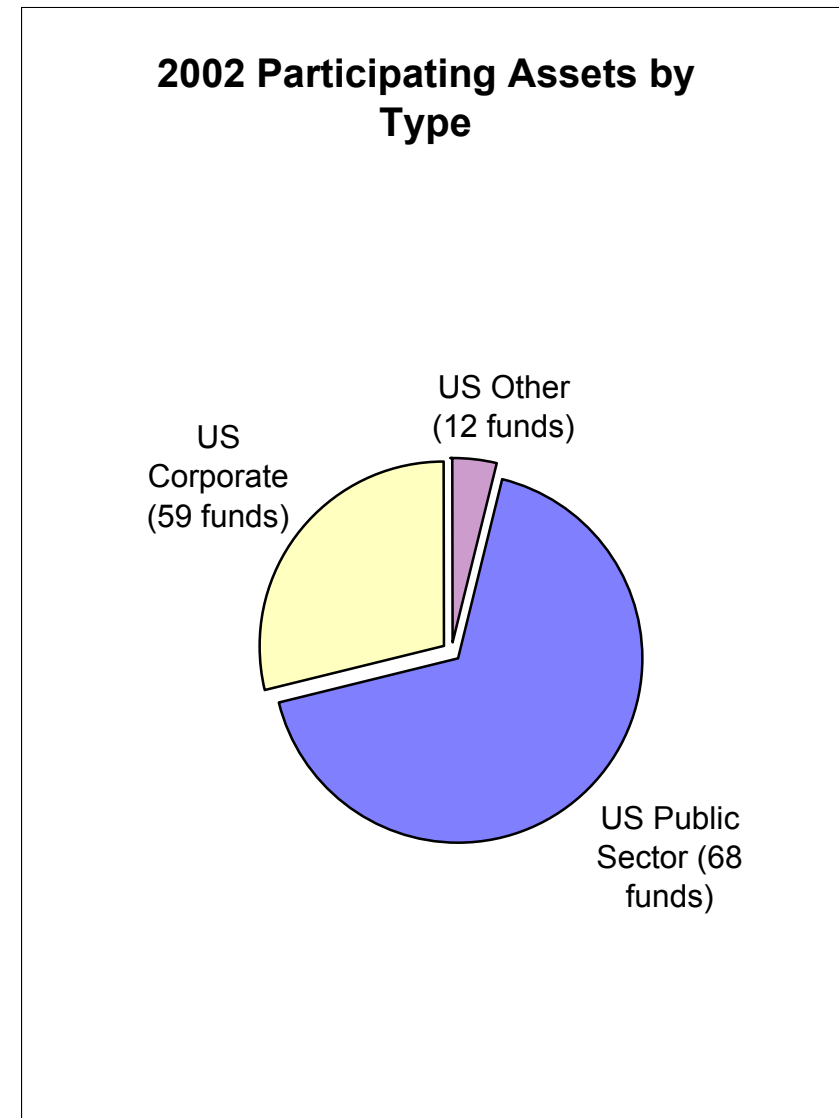


Table of Contents

1 Executive Summary

2 Research

3 Description of Peers & Universe

Custom Peer Group	Peers - 2
Implementation Style & Asset Mix	Peers - 4
Survey Universe	Peers - 14

4 Implementation Value Added

Policy Return and Value Added Calculation	IVA - 2
Total Return Comparison	IVA - 4
Policy Return Comparison	IVA - 6
Value Added Comparison	IVA - 8
Comparisons of Investment Policy	IVA - 10
Components of Value Added	IVA - 12
Asset Class Statistics	IVA - 13
Frequently Used Benchmarks	IVA - 15
Correlation Between Policy & Actual Returns	IVA - 17
Implementation Risk	IVA - 18

5 Policy Value Added

Defining Policy Value Added & Liability Returns	PVA - 2
Comparisons of Liability Returns	PVA - 9
Policy Value Added Comparisons	PVA - 10
Policy Risk	PVA - 12
Risk Adjusted Policy Value Added	PVA - 14

6 Benchmark Costs & Cost Effectiveness

Defining Operating Costs	Benchmark - 2
Benchmark Cost Equation	Benchmark - 4
Your Benchmark Cost	Benchmark - 6
Comparisons of Excess Costs	Benchmark - 8
Cost Effectiveness Ranking	Benchmark - 10

7 Cost Comparisons

Components of Direct Investment Costs	Cost - 2
Governance & Administration Costs	Cost - 23

8 Fund Trends

Various Trends (4 Years Data)	Trends - 2
Actuarial Fees	Trends - 4
Securities Lending	Trends - 6
External Management & Mandate Size	Trends - 8
Performance based fee arrangements	Trends - 10
Brokerage fees, rebates and soft dollars	Trends - 11
Plan membership	Trends - 12
Plan Valuation Assumptions	Trends - 13

9 Appendices

Your Data	Appendix - 1
Data Quality	Appendix - 6
Glossary of Terms	Appendix - 7
Statistical Appendices 2002 Data	Appendix - 8
Statistical Appendices 2001 Data	Appendix - 21

What gets measured gets managed, so it is critical that you measure and compare the right things:

1. Surplus Return

Is the market value of your assets growing faster than the market value of your liabilities?

2. Policy Value Added

Are your policy asset mix decisions adding value?

3. Implementation Value Added

Are your implementation decisions (i.e., mostly active management) adding value?

4. Costs

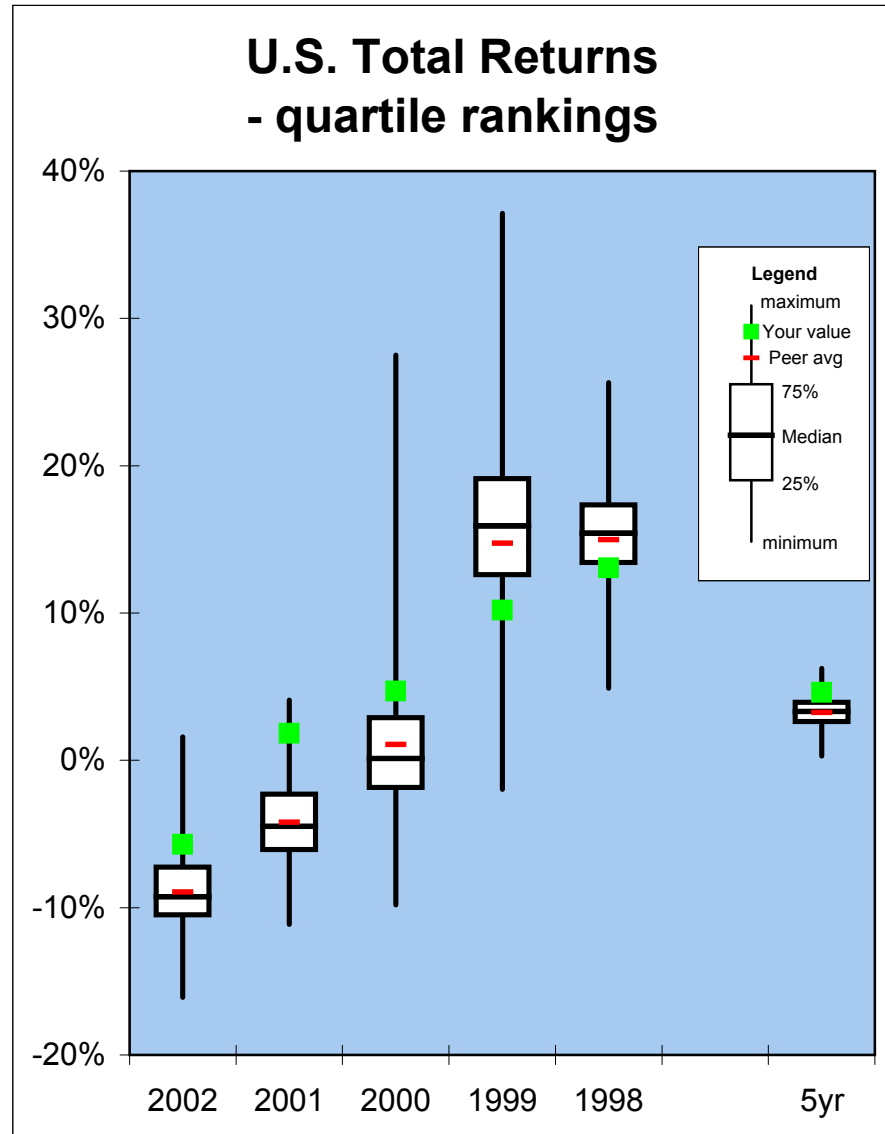
Are your costs reasonable?
Costs matter and can be managed.

5. Surplus Risk

Risk is caused by the mismatch between your assets and your liabilities. How big is the risk? Are you being paid sufficiently for the risk you are taking?

Total Returns, by themselves, are the wrong thing to compare and focus on.

They do not tell you the reasons behind good or bad relative performance.



1. Surplus Return

A better measure of total performance is Surplus Return. It compares your Total Return to the change in your liabilities caused by market forces. Your 5-yr Surplus Return was -4.0%.

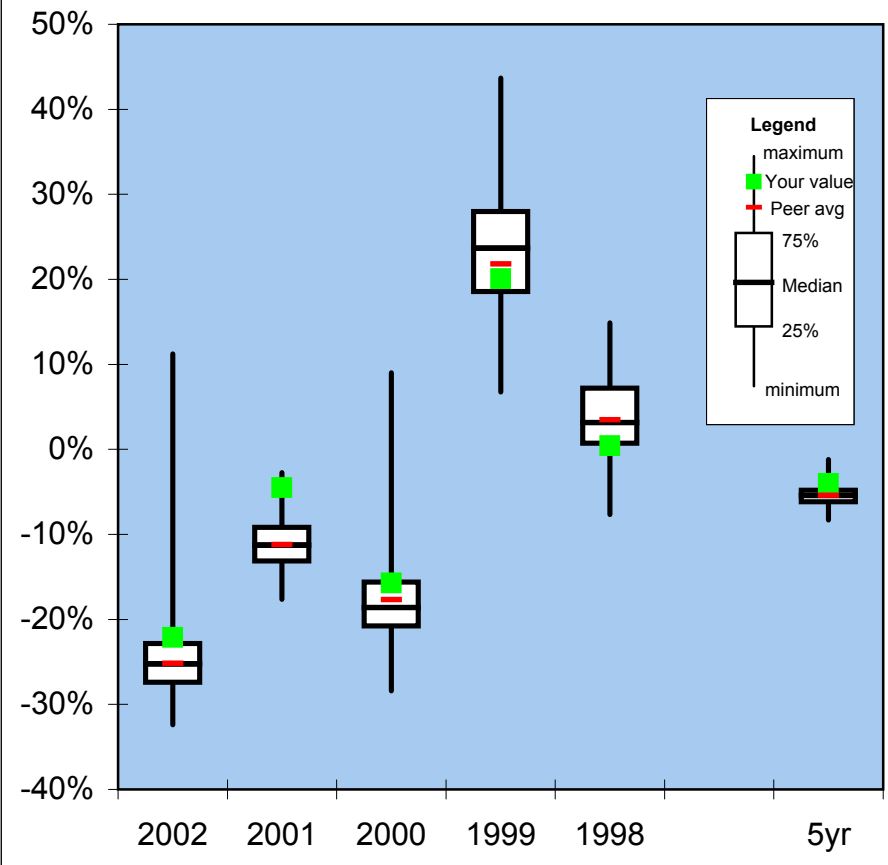
This compares to a peer median of -5.5% and a US median of -5.4%.

Your 5-yr surplus return was negative. Therefore, the market value of your liabilities grew faster than the market value of your assets.

Calculation of Your 5-yr Surplus Return

	<u>5-year</u>
+ Total Return	4.6%
- Change in Liabilities caused by market factors ("Liability Return")	8.5%
- Costs	0.2%
= Surplus Return	-4.0%

U.S. Surplus Returns - quartile rankings



1. Surplus Return
(Neutral Asset Mix)

To measure changes in your liabilities caused by market factors (your "Liability Return"), we start by constructing a neutral asset mix that matches your pension liability profile.

Your Neutral Asset Mix		
	Modified Duration	% of Assets
Inflation Indexed Bonds	10.0	64%
Nominal Bonds	25.5	36%
Total		100%

There are two very good reasons why funds do not guarantee their pension liabilities by purchasing their neutral asset mix:

- impractical for large funds due to the limited supply of inflation indexed assets.*
- higher funding costs or lower future benefits because this low risk strategy also has a lower expected return.*

Your asset mix is constructed using a combination of nominal and inflation indexed bonds. It takes into account the sensitivity of your pension liabilities to changes in real and nominal interest rates. Your neutral asset mix reflects:

- Your plan type. You have a 5 year highest average plan. Therefore, your active employees have essentially close to 100% inflation protection.
- Your pension promise in terms of post-retirement inflation protection. Your contractual inflation protection for retirees was 0%.
- The proportion of your membership that is active, deferred and retired. Older plans with more retirees have shorter durations than younger plans with more active members.

1. Surplus Returns - (Liability Returns)

Market factors caused your liabilities to increase by 8.5% per annum over the past 5 years, which was close to the US average liability return of 8.3%.

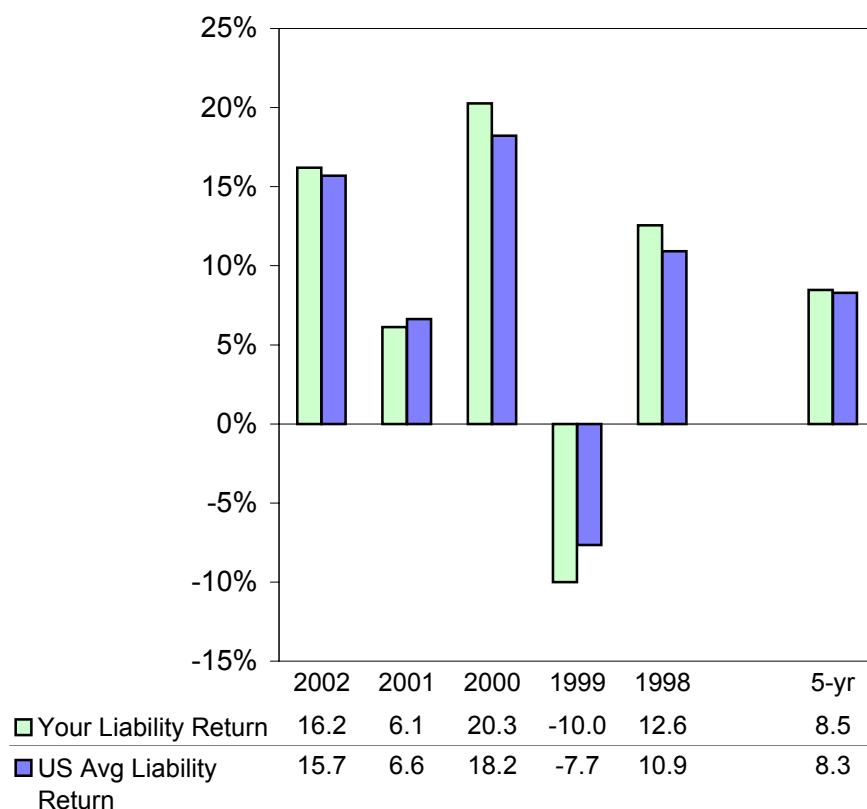
- Your liability return's performance relative to the US average depends on:

- the relative sensitivity of your liabilities to changes in nominal and real interest rates compared to the US average,
- how these interest rates have changed over the past 5 years.

For example, Final Average plans with 100% inflation protection for retirees are impacted more significantly by changing real than nominal interest rates.

- Liability Returns do not reflect changes in your Liabilities caused by changes in benefits or demographics just as Asset Returns do not measure changes in assets caused by contributions. Liability Returns only measure changes caused by market forces.

Change in your Liabilities caused by market factors ("Liability Return")



2. Policy Value Added - How does your current Policy Asset Mix compare?

You changed your asset mix in 2002. Currently, it compares to your peers and the US average as follows:

Most significantly, you reduced your Fixed Income policy weight (from 48% to 40%), added a new policy weight for Private Equity (5%) and increased your policy weight in Foreign Stocks (from 10% to 15%).

2002 Policy Asset Mix			
Asset Class	Your Fund	Peer Avg	US Avg
Domestic Stocks	35%	45%	45%
Foreign Stocks	15%	16%	16%
Fixed Income	40%	33%	30%
Inflation indexed bonds	0%	1%	1%
Cash	0%	0%	1%
Real Estate & REITS	5%	1%	4%
Private Equity	5%	3%	3%
Total	100%	100%	100%

2. Policy Value Added - Policy Returns

Your 5-year policy return of 4.0% was above the US median of 2.6%.

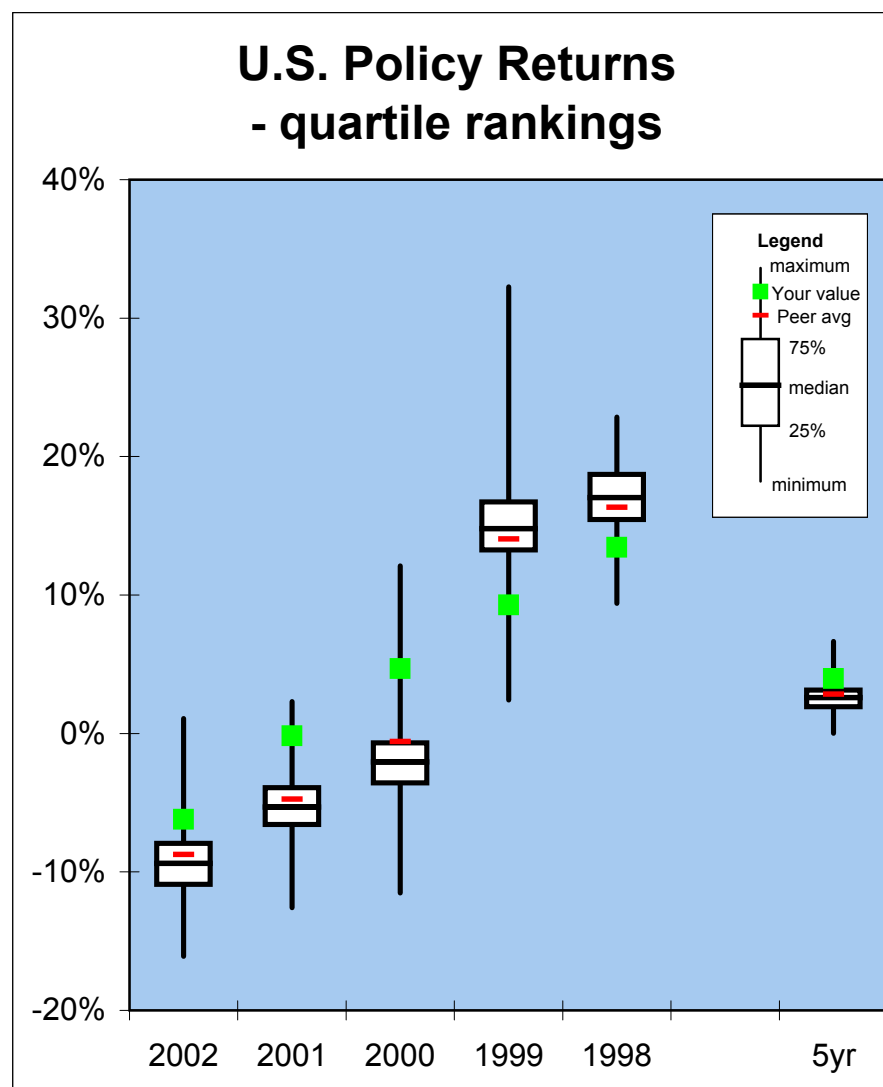
Your policy return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative policy return is not necessarily good or bad. This is because your policy return reflects your investment policy which should reflect your:

- long term capital market expectations
- liabilities
- appetite for risk.

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns vary significantly between funds.

Note: your peer median 5-yr policy return was 2.6%.



**2. Policy Value Added -
Why does your Policy
Return differ from
average?**

Your above US median 5-yr policy return reflects the following differences between your policy asset mix and the US average.

- The positive impact of your relative overweighting in one of the best performing asset classes of the past 5 years: Fixed Income (your 5-yr avg weight of 46% versus a US average of 31%).
- The positive impact of your relative underweighting in one of the worst performing asset classes of the past 5 years: Domestic Stocks (your 5-yr avg weight of 36% versus a US average of 46%).
- The positive impact of your relative underweighting in one of the worst performing asset classes of the past 5 years: Foreign Stocks (your 5-yr avg weight of 11% versus a US average of 14%).

5-year Average Policy Asset Mix			
Asset Class	Your Fund	Peer Avg	US Avg
Domestic Stocks	36%	46%	46%
Foreign Stocks	11%	15%	15%
Fixed Income	46%	35%	31%
Inflation indexed bonds	0%	0%	0%
Cash	0%	0%	1%
Real Estate & REITS	6%	1%	4%
Private Equity	1%	2%	3%
Total	100%	100%	100%

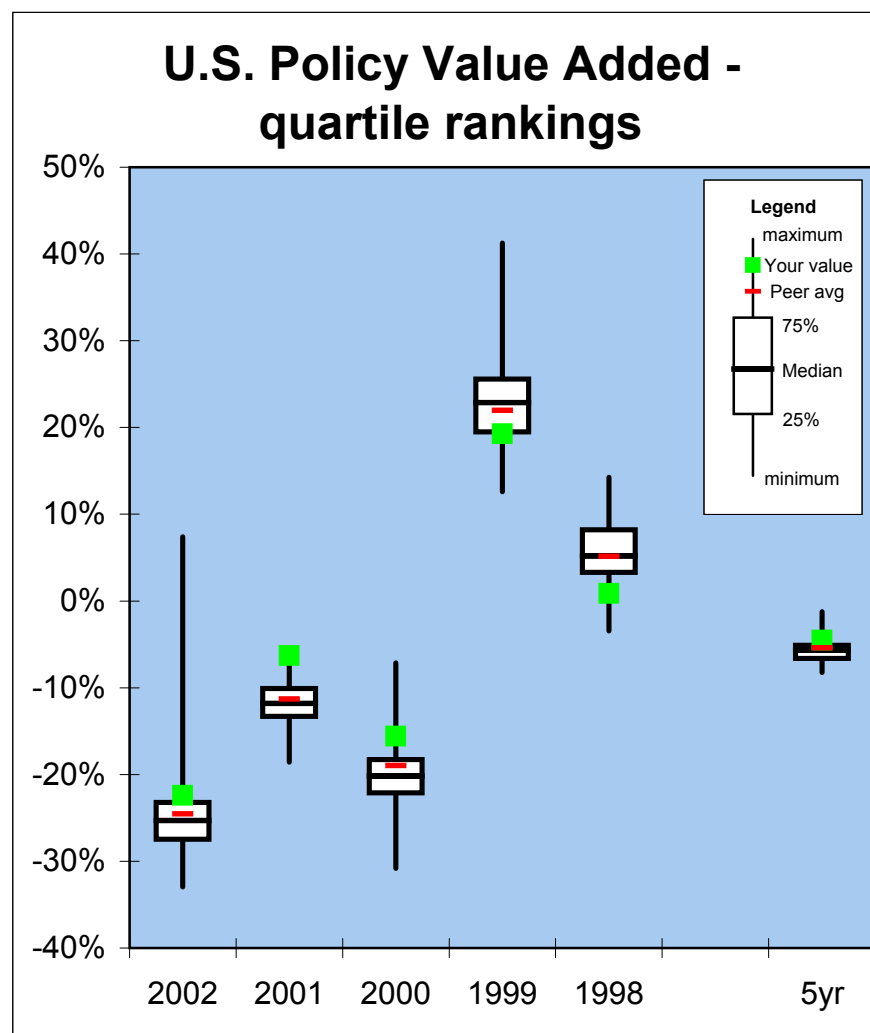
2. Policy Value Added

Policy value added is the value added from policy asset mix decisions. It equals your policy return minus the return on your neutral liability matching portfolio (i.e. your liability return).

- Your 5-yr average policy value added was -4.5% per annum. In other words, your policy asset mix decision resulted in the market value of your liabilities growing faster than your assets by 4.5% per annum.

Calculation of your 5-yr Policy Value Added	
	5-year
+ Policy Return	4.0%
- Change in Liabilities caused by market factors ("Liability Return")	8.5%
= Policy Value Added	-4.5%

Your 5-year Policy Value Added of -4.5% was above the US median of -5.7% per annum. Your peer median was -5.6% per annum.



3. Implementation Value Added

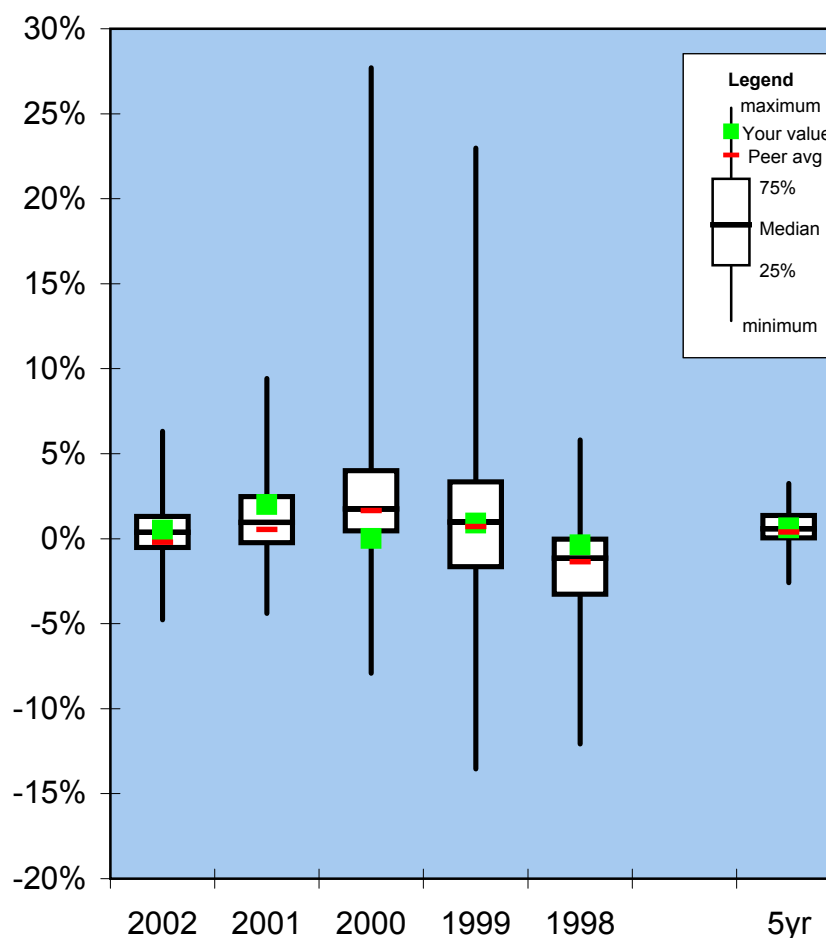
Implementation value added measures the contribution from active management. Your 5-yr implementation value added was 0.6%.

- This compares to a 5-yr US median of 0.6% and a peer median of 0.6%.
- Your value added from implementation decisions (i.e., mostly active management) equals your total return minus your policy return (i.e., the return you could have earned by passively indexing your policy asset mix).

Year	Actual Return	Policy Return	Value Added		
			Total	In-Category	Mix
2002	-5.7%	-6.2%	0.5%	-1.6%	2.1%
2001	1.8%	-0.2%	2.0%	0.6%	1.4%
2000	4.7%	4.7%	0.0%	-0.3%	0.3%
1999	10.2%	9.3%	0.9%	3.2%	-2.3%
1998	13.1%	13.4%	-0.4%	-0.2%	-0.1%
5yr	4.6%	4.0%	0.6%	0.3%	0.3%

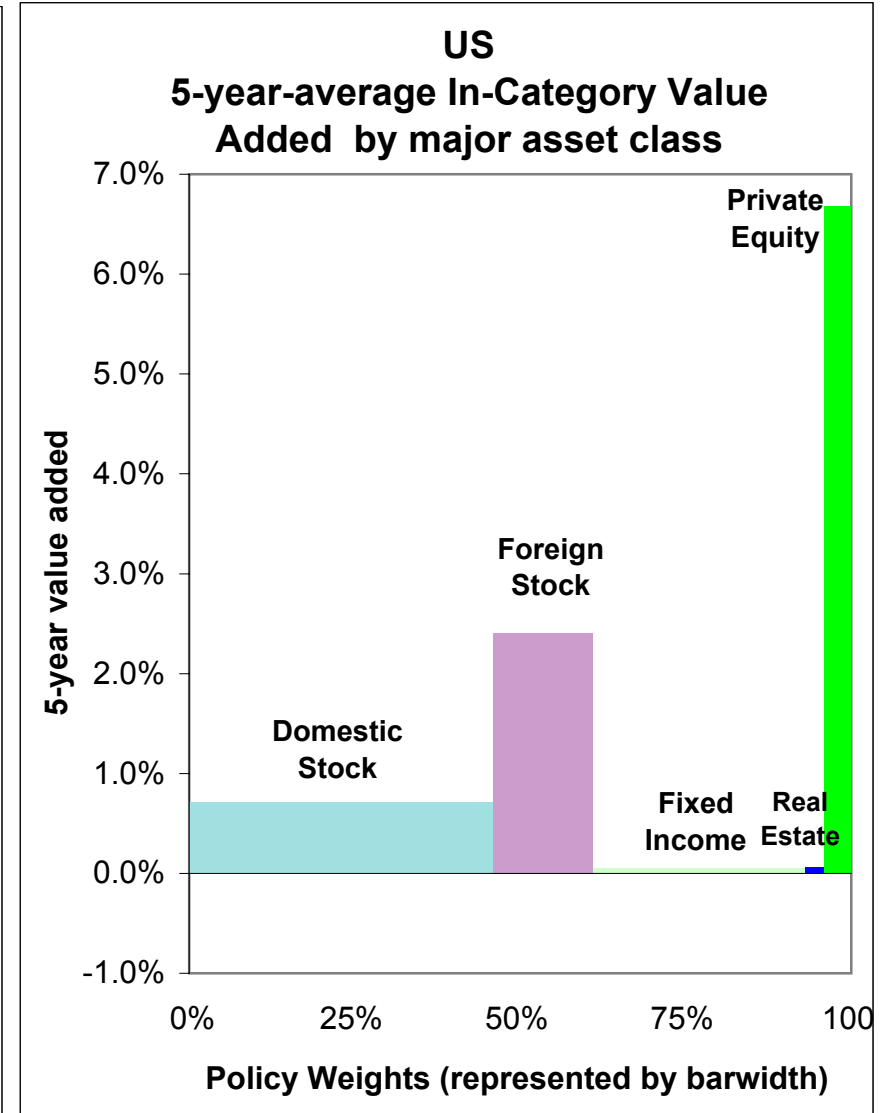
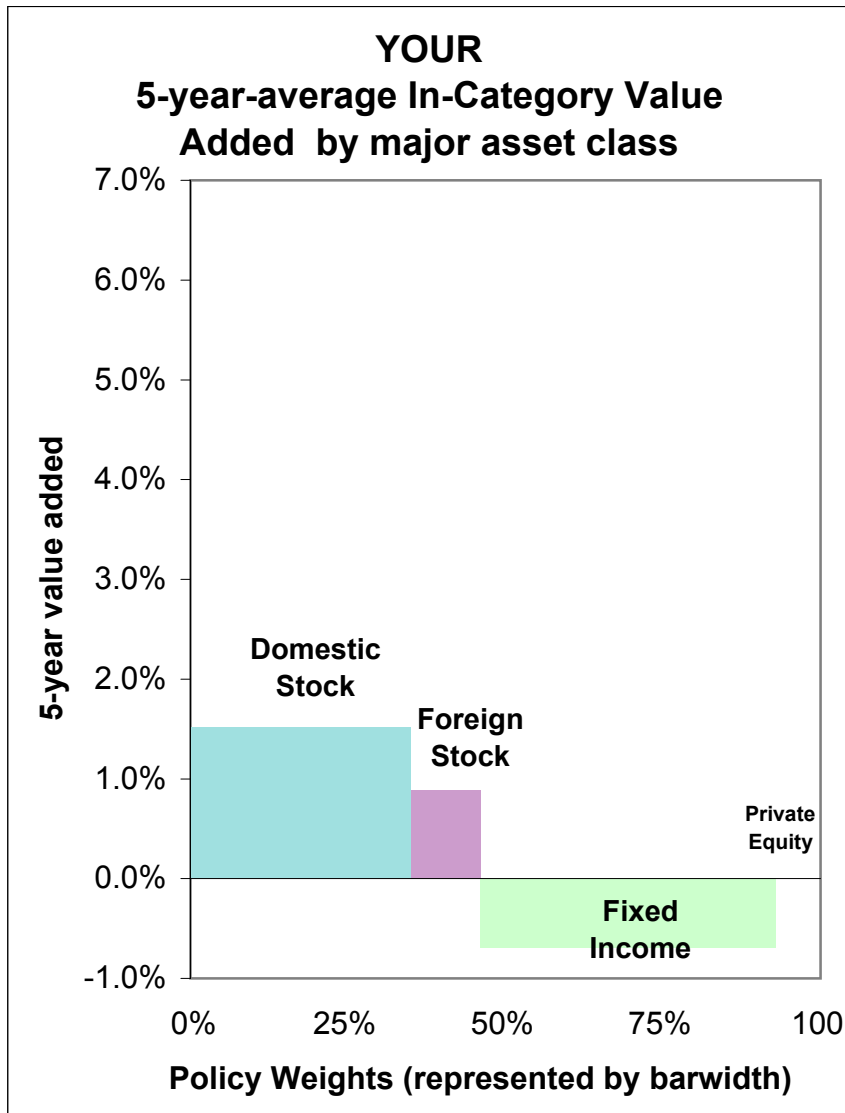
- Your 5-yr Implementation Value added of 0.6% consisted of 0.3% from In-Category (security selection) and 0.3% from Mix (primarily differences between your actual and policy asset mixes).

U.S. Implementation Value Added - quartile rankings



3.Implementation
Value Added
(In-category by Asset Class)

You had positive 5-year in-category value added in Domestic and Foreign Stocks.



4. Costs (Total)

Asset mix and implementation decisions impact costs. Your asset management costs (including G&A) in 2002 were \$12.8 million or 22.6 basis points.

- CEM collects direct investment costs by major asset classes and 4 different implementation styles.
- Governance and administration includes all costs associated with the oversight and administration of the investment operation, regardless of how these costs are paid.
- Note that only asset management and oversight costs are included. Costs pertaining to member servicing are specifically excluded.

Your Direct Investment Management Costs (\$000s)				
	Internal		External	
	Passive	Active	Passive	Active
Domestic Equity - Large Cap			262	1,824
Domestic Equity - Small Cap				4,196
Foreign Equity - Developed			142	1,680
Foreign Equity - Emerging				
Fixed Income - Domestic				2,896
Fixed Income - Foreign				
Fixed Income - Inflation Indexed				
Fixed Income - Miscellaneous				
Cash & Equivalents				
REITs				
Real Estate				
Hedge & Absolute return				
			Fund-of-Fund	
Venture Capital & LBO				160
Other Private Equity				
Overlay Programs				
Total DIM costs			19.7bp	11,160
Your Governance & Administration - asset related (\$000s)				
Executive and Admin				150
Custodial				1,140
Consulting and Performance Measurement				290
Audit				
Other				75
Total G&A costs			2.9bp	1,655
Total Operating Costs in \$000s			22.6bp	12,815

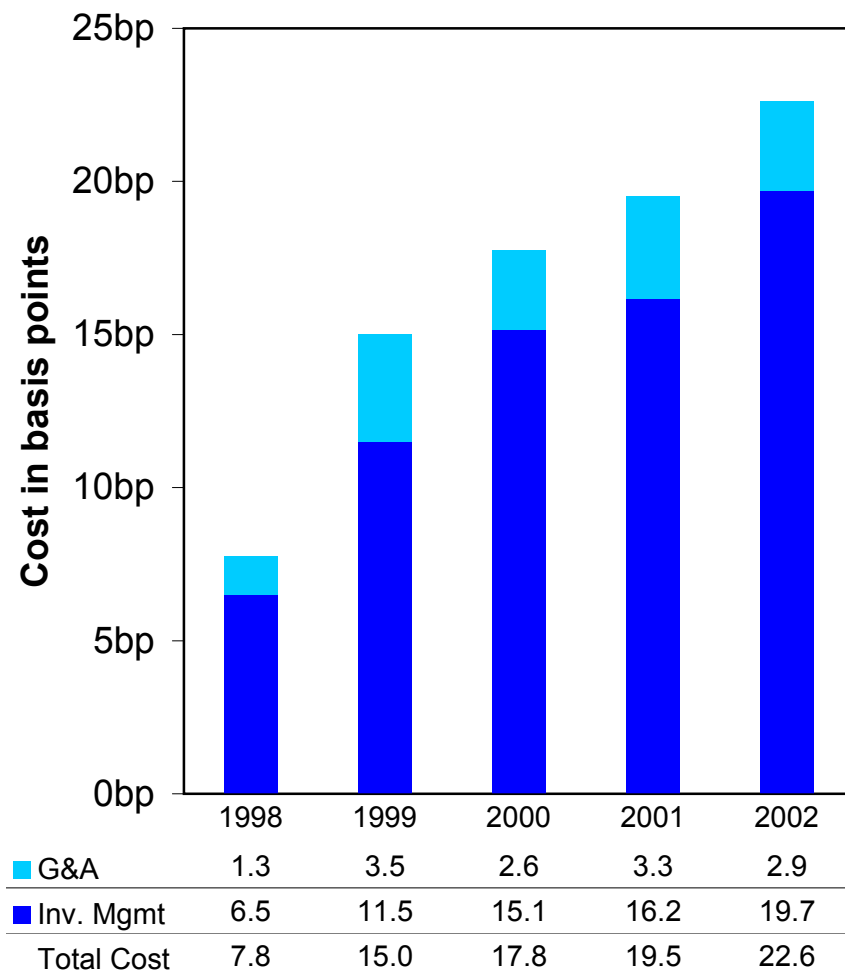
4. Costs (History)

Your operating costs have increased each year for the past 5 years.

This increase is not surprising given that you have changed your asset mix over the past 5 years.

- For each of the the 4 years ending 2001, you decreased your allocation to 'lower cost' Fixed Income and increased your allocation to 'higher cost' Domestic and Foreign stocks.
- The increase in costs in 2002 can be partially attributed to a new private equity program initiated during the year. Private equity is one of the highest cost asset classes.

Your Annual Operating Costs



4. Costs

- Are they high or low?

Benchmark cost analysis suggests that your fund was normal cost.

To assess your cost performance, we start by calculating your benchmark cost. Your benchmark cost is an estimate of what your costs should be given your fund size, asset mix and country of origin.

Your Actual Cost of 22.6 bp was close to your Benchmark Cost of 19.8 bp. Thus, your fund's Excess Cost was 2.8 bp, suggesting that your fund was normal cost.

The following pages review reasons behind your normal cost status.

	(\$000)	basis points
Your Fund's Actual Cost	\$12,815	22.6 bp
Your Fund's Benchmark Cost*	<u>\$11,213</u>	<u>19.8 bp</u>
Your Fund's Excess Cost	<u>\$1,602</u>	<u>2.8 bp</u>

*Calculating the 2002 Benchmark Cost for Indiana State Teachers' Retirement Fund			
Characteristics	Your Values	Coeff.	Values X Coefficients
Constant or starting point estimate		73.7	74 bp
Adjusting Factors:			
Size (Log10 of Your avg size of \$5664 mil.	3.75	-17.6	-66 bp
Percentage of assets invested in:			
- Domestic Equity	36%	17.5	6 bp
- Foreign Equity	9%	60.5	6 bp
- Real Estate	0%	102.0	0 bp
- Venture Capital/LBO/Private Equity	0%	163.1	0 bp
Country Variable (1 if Cdn, 0 if US)	0	-12.6	0 bp
Total = Your Benchmark Cost			19.8 bp

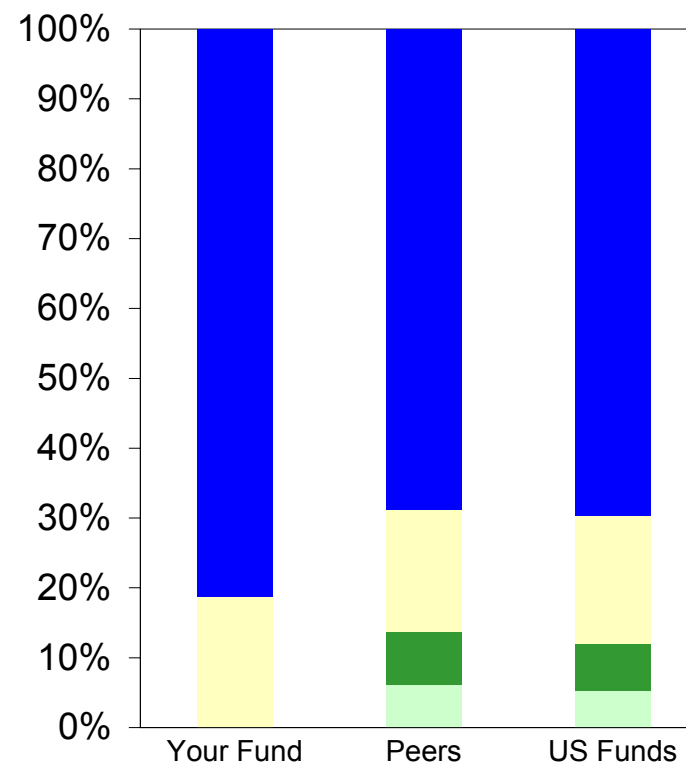
4. Costs Is it style?

Your implementation style was slightly high cost.

- Your fund used more external active management than your peers (your 81% versus a 69% average for your peers).

External active management is usually substantially higher cost than either passive management or internal management so small differences in the proportions of this high cost style can have a large impact on relative cost performance. However, in your case, the difference is minor because more than two-thirds of your external active management is in fixed income (one of the least costly asset classes).

Implementation Style



**4. Costs -
Are you paying
more for similar
services?**

**Your Governance & Administration costs were
very similar to your peers.**

Governance & Administrative Costs				
	Your 2002		Peer	Impact of the
	Avg Holdings in \$mils	Costs in bps	Median in bps	difference in \$000's
Executive & Administrative	5,664	0.3	0.8	-310
Custodial	5,664	2.0	1.4	354
Consulting & Performance Measurement	5,664	0.5	0.4	45
Other G&A	5,664	0.13	0.14	-5
Total G&A Impact in \$000's				\$83
Total G&A Impact in basis points				0.1 bp

4. Costs -
Are you paying more
for similar services?

Your External Investment Management costs were generally close to your peers. The notable exception was your much lower Active Fixed Income costs.

<i>Externally Managed Investment Management Costs</i>				
	Your 2002		Peer Median in bps	Impact of the difference in \$000's
	Avg Holdings in \$mils	Costs in bps		
Domestic Stock Large Cap - Passive	928	2.8	2.0	76
Domestic Stock Large Cap - Active	498	36.6	36.6	0
Domestic Stock Small Cap - Active	608	69.0	66.3	166
Foreign Stock Developed - Passive	179	7.9	8.7	-14
Foreign Stock Developed - Active	358	46.9	41.9	178
Domestic Fixed Income - Active	3,088	9.4	17.4	-2,465
Ven. Capital/ LBO - Fd of Fd (Amt fees pd o	5	355.6	80.6	124
Total External Investment Management Impact in \$000's				(\$1,936)
Total External Investment Management Impact in basis points				-3.4 bp

Differences between what you and your peers paid for similar services amounted to about -3 bp.

- The chart on the right summarizes comparisons of your costs to your peers.

<i>Summary of Impact - Your Costs vs. Peers</i>	\$'000s	basis points
Governance & Administration	83	0.1 bp
External Investment Management	-1,936	-3.4 bp
Total Impact	-\$1,853	-3.3 bp

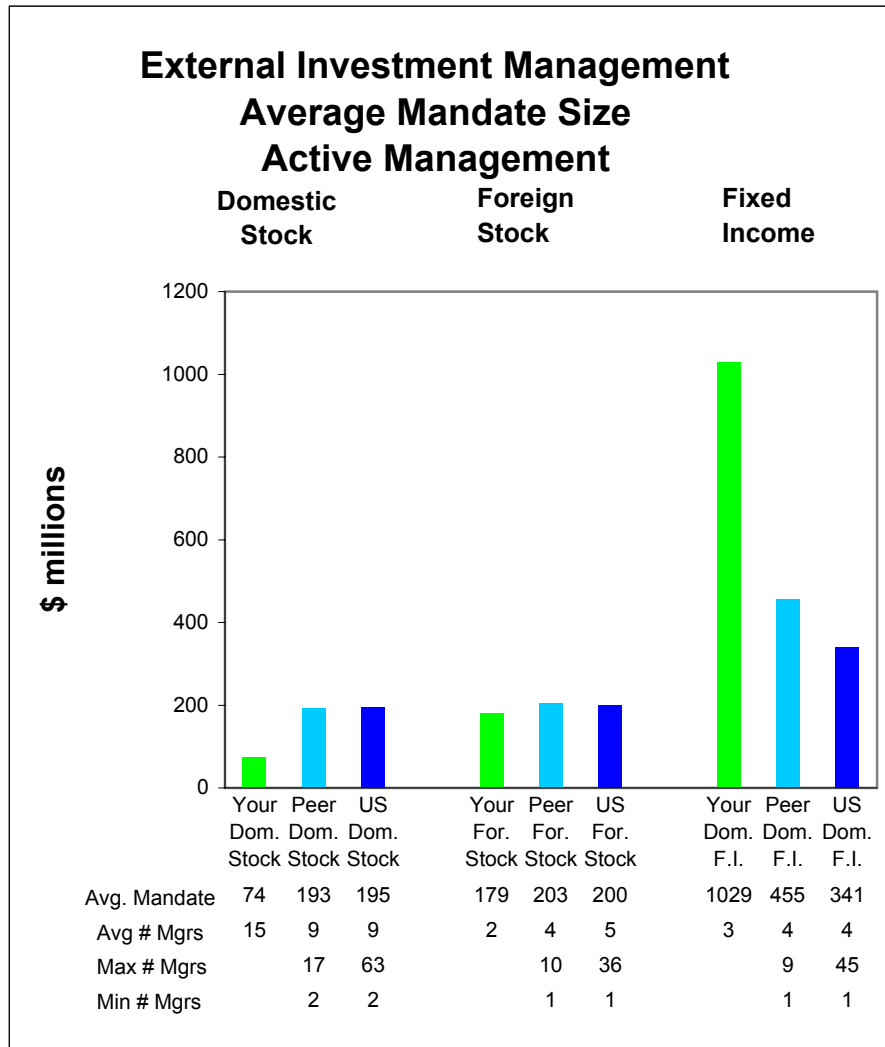
Summary of Overall Cost Analysis

- Benchmark Cost analysis suggested that your fund was normal cost.
- Further analysis confirmed that your fund was normal cost because your slightly high cost implementation style was offset by the fact that you paid less than your peers for some services.

4. Costs -
Do you have smaller mandates?

Your much larger mandates for fixed income could be one reason why your are paying much less than your peers for this asset class.

- Declining asset based fee schedules help funds that give external managers larger portfolios to sometimes achieve better cost performance. The impact is usually subtle.



5. Surplus Risk

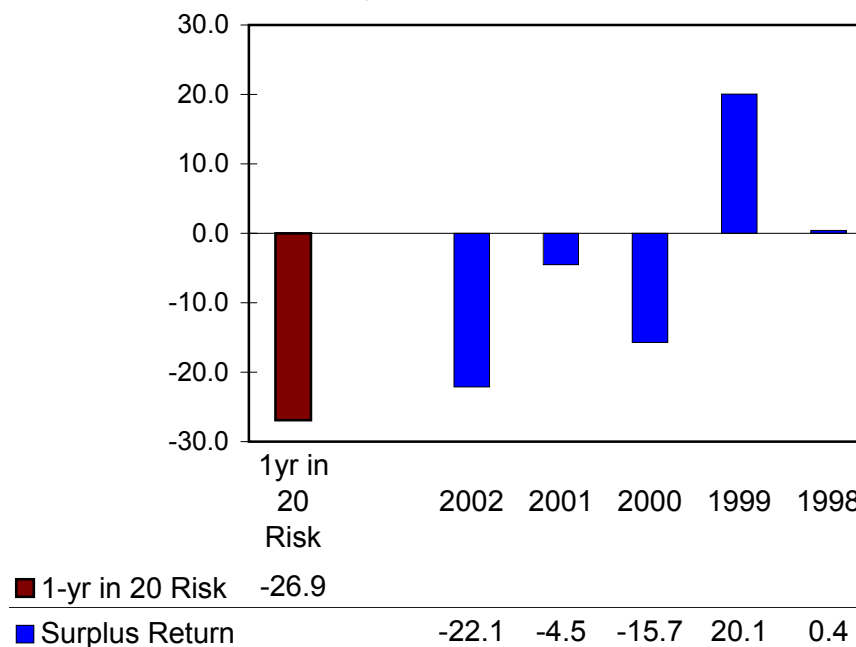
Risk is created by the mismatch between your assets and your liabilities. This mismatch is caused by both asset mix policy decisions and implementation decisions.

CEM defines "Surplus Risk" as the standard deviation of your Surplus Return. Your Surplus Risk for the 5-years ending 2002 was 16.3%.

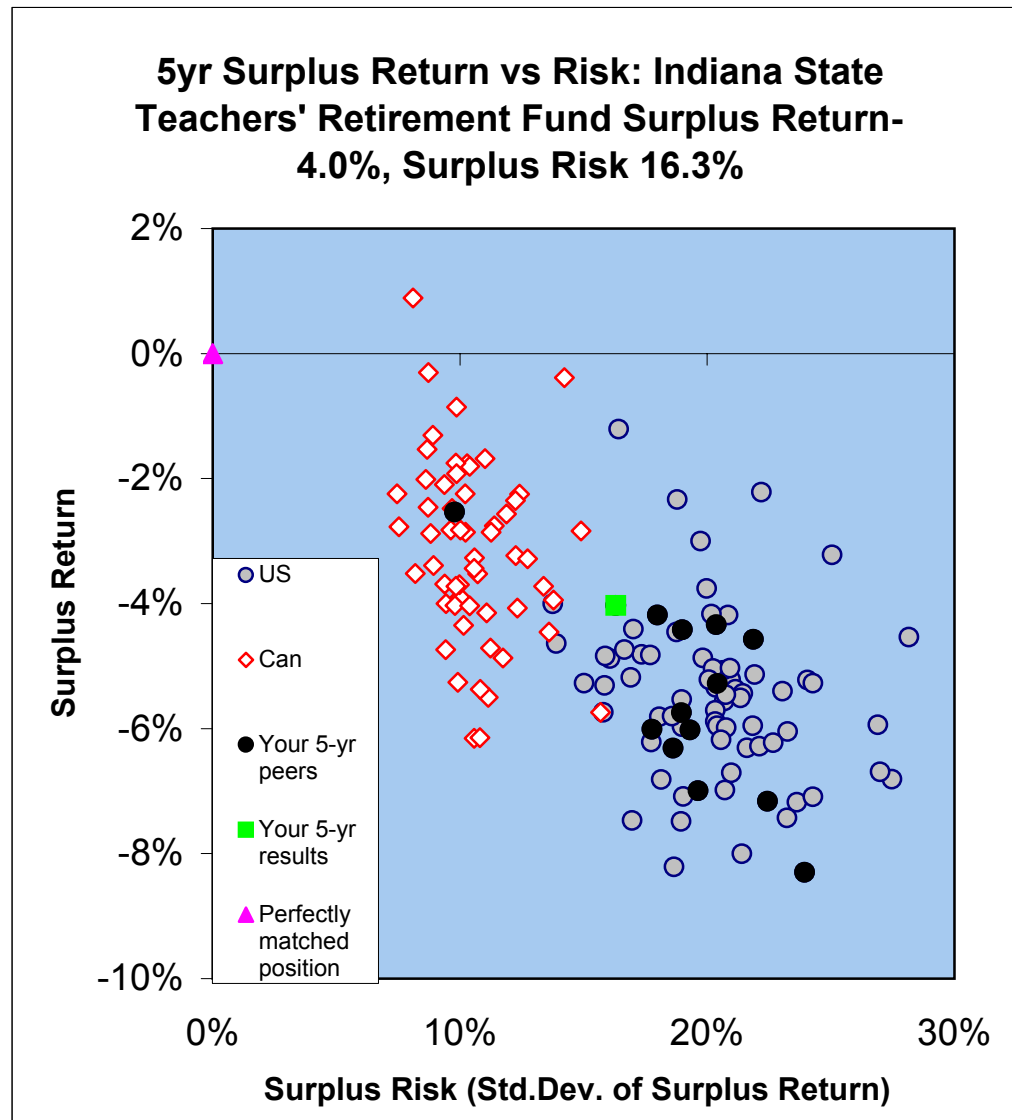
By applying further statistical analysis, your Surplus Risk can be used to estimate the magnitude of potential losses in 'worst case' scenarios.

In your case, this analysis implies that 1 year in 20 you can expect to lose in excess of $1.65 \times 16.3\% = 26.9\%$ relative to your current funded status. Of course, 1 year in 20 you can also expect to gain in excess of the same amount.

**Your 5-year Surplus Risk was 16.3%.
This implies that 1 year in 20 you can expect to lose in excess of 26.9% relative to your funded status.**



Most systems have not been rewarded for taking risk over the past 5 years.



In summary:

1. Surplus Return

Your liabilities grew faster than your assets. Your 5-yr Surplus Return was -4.0% per annum. This overall performance reflects:

2. Policy Return

- Negative value added from asset mix policy decisions. Your 5-yr policy value added was -4.5% per annum.

3. Implementation Value Added

- Positive value added from implementation decisions (i.e., mostly active management). Your 5-yr implementation value added was 0.6% per annum.

4. Costs

- Relative normal cost. Your 2002 cost of 23 bps was in line with your benchmark cost primarily because your slightly high cost implementation style was offset by the fact that you paid less than your peers for some services.

5. Surplus Risk

Your Surplus Risk was 16.3%. This risk implies that 1 year in 20 you can expect to lose more than 26.9% relative to your funded status.

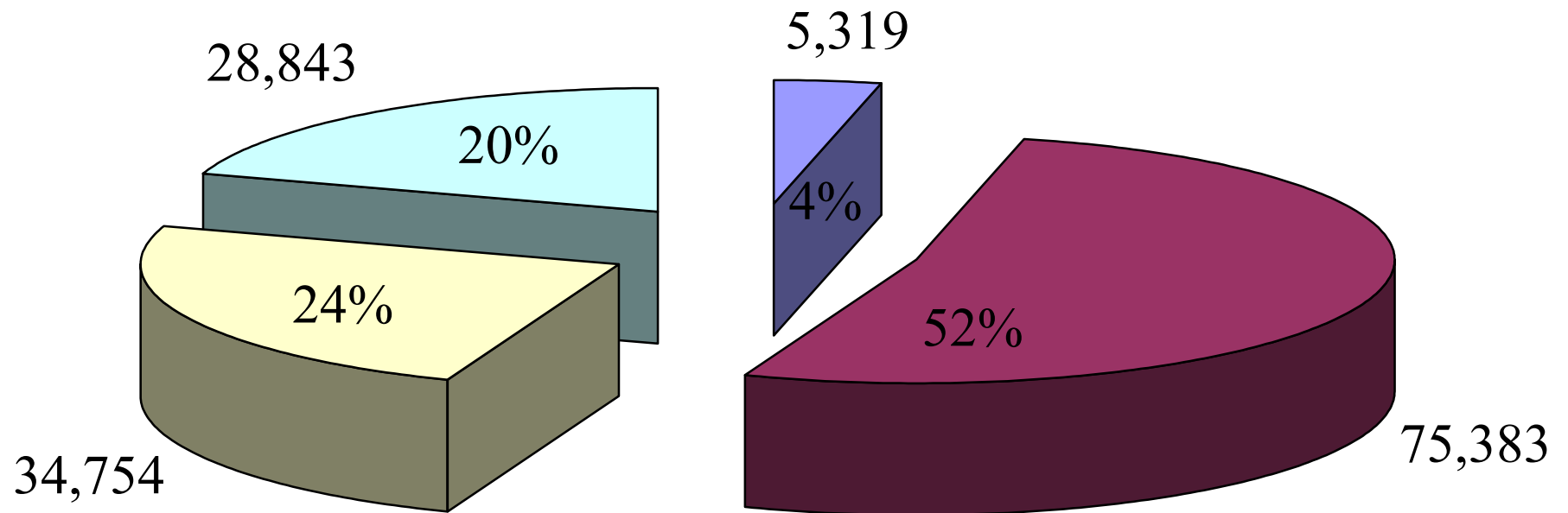
Your relative performance

Your 5-year Performance		Relative Comparisons	
		Peer	US
		Med	Med
+ Policy Value Added	-4.5%	-5.6%	-5.7%
+ Implementation Value Added	0.6%	0.6%	0.6%
- Costs	-0.2%	-0.3%	-0.3%
= Surplus Return	-4.0%	*-5.5%	*-5.4%
Surplus Risk	16.3%	19.2%	20.3%

**Note: The numbers do not add because we have used medians and not averages. We used medians because they provide better relative comparisons.*

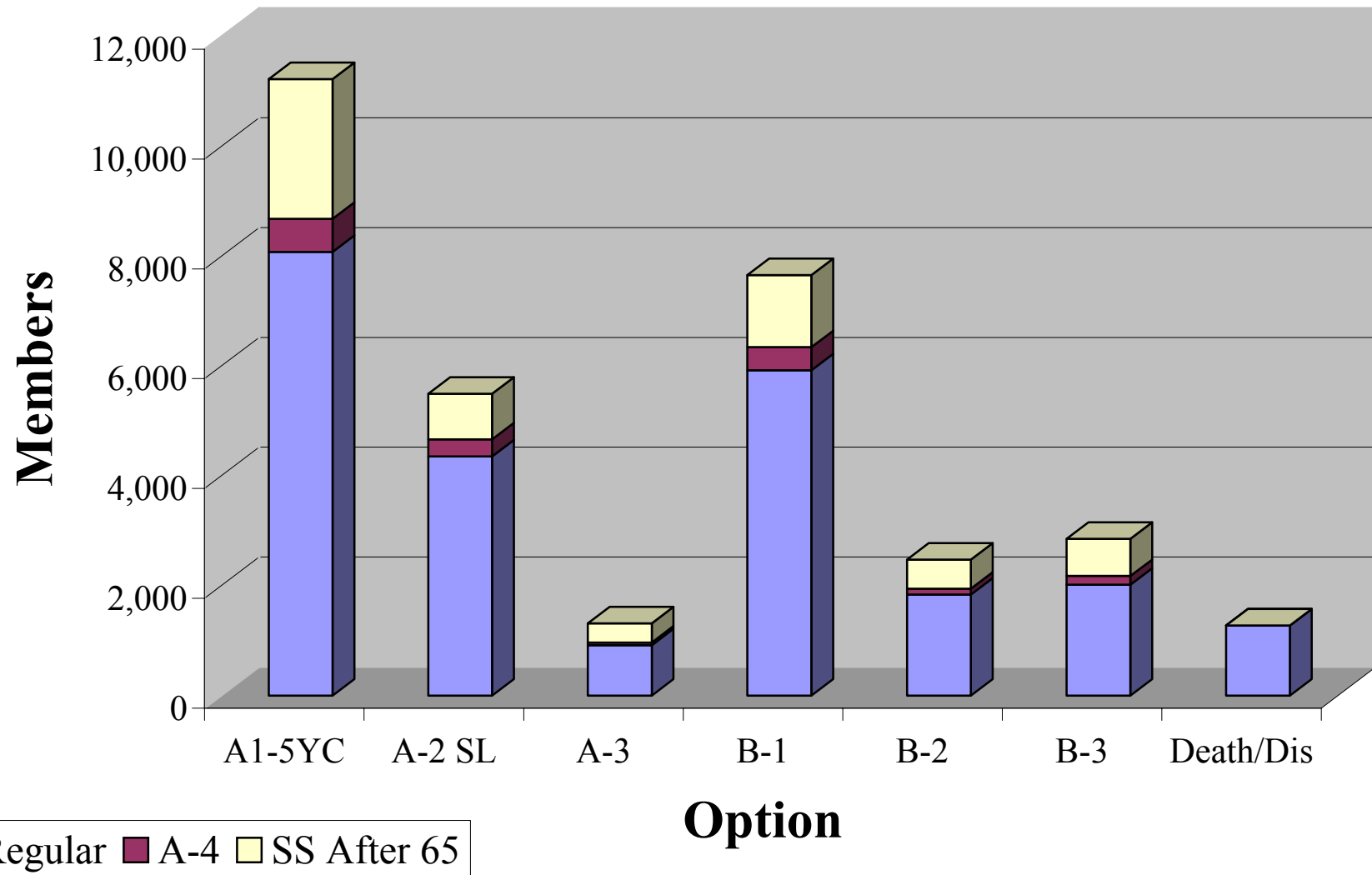
Statistical Section

FUND MEMBERS



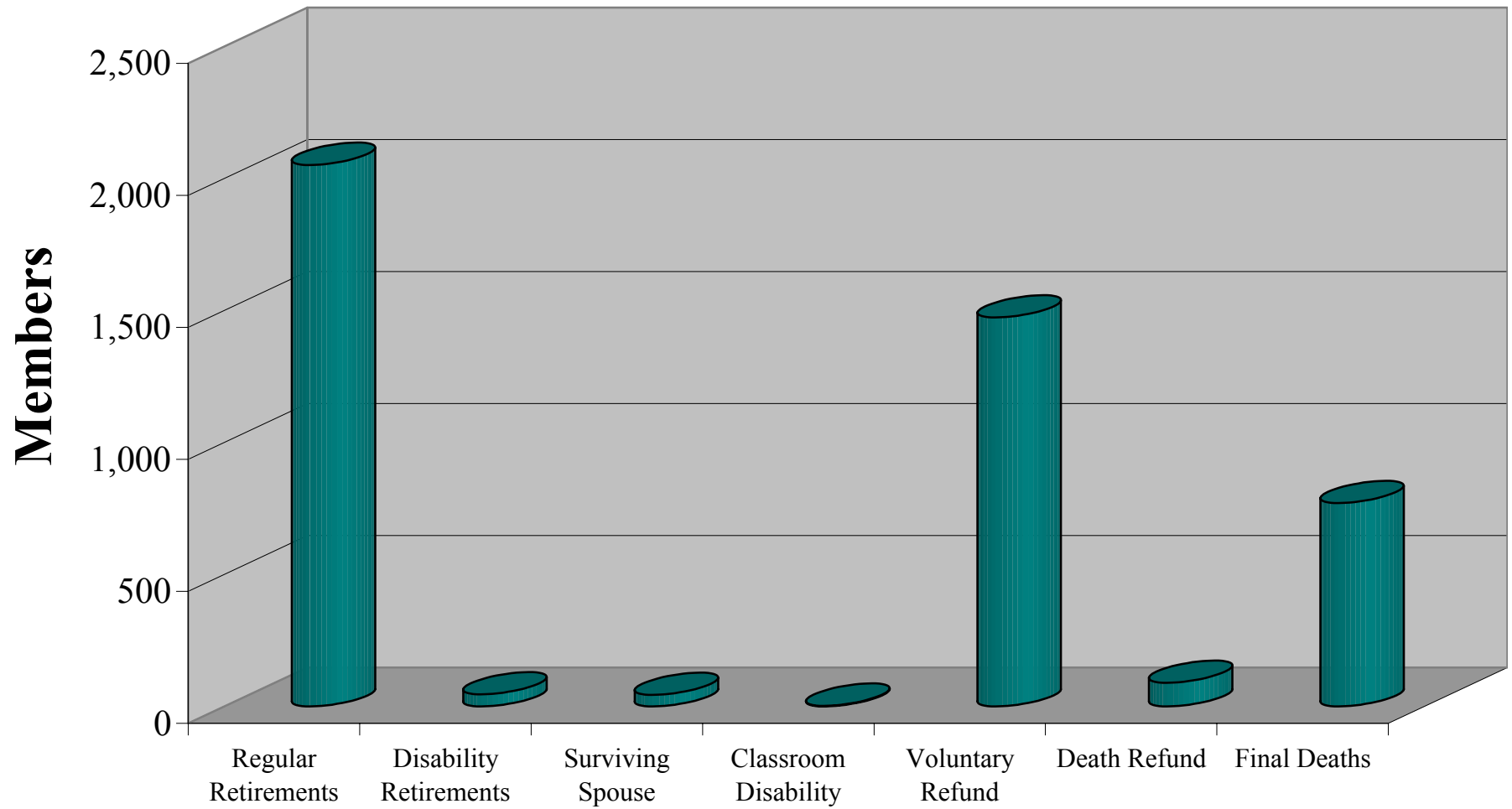
■ Inactive ■ Active ■ Retirees ■ Non-vested Inactive

Retired Member Options

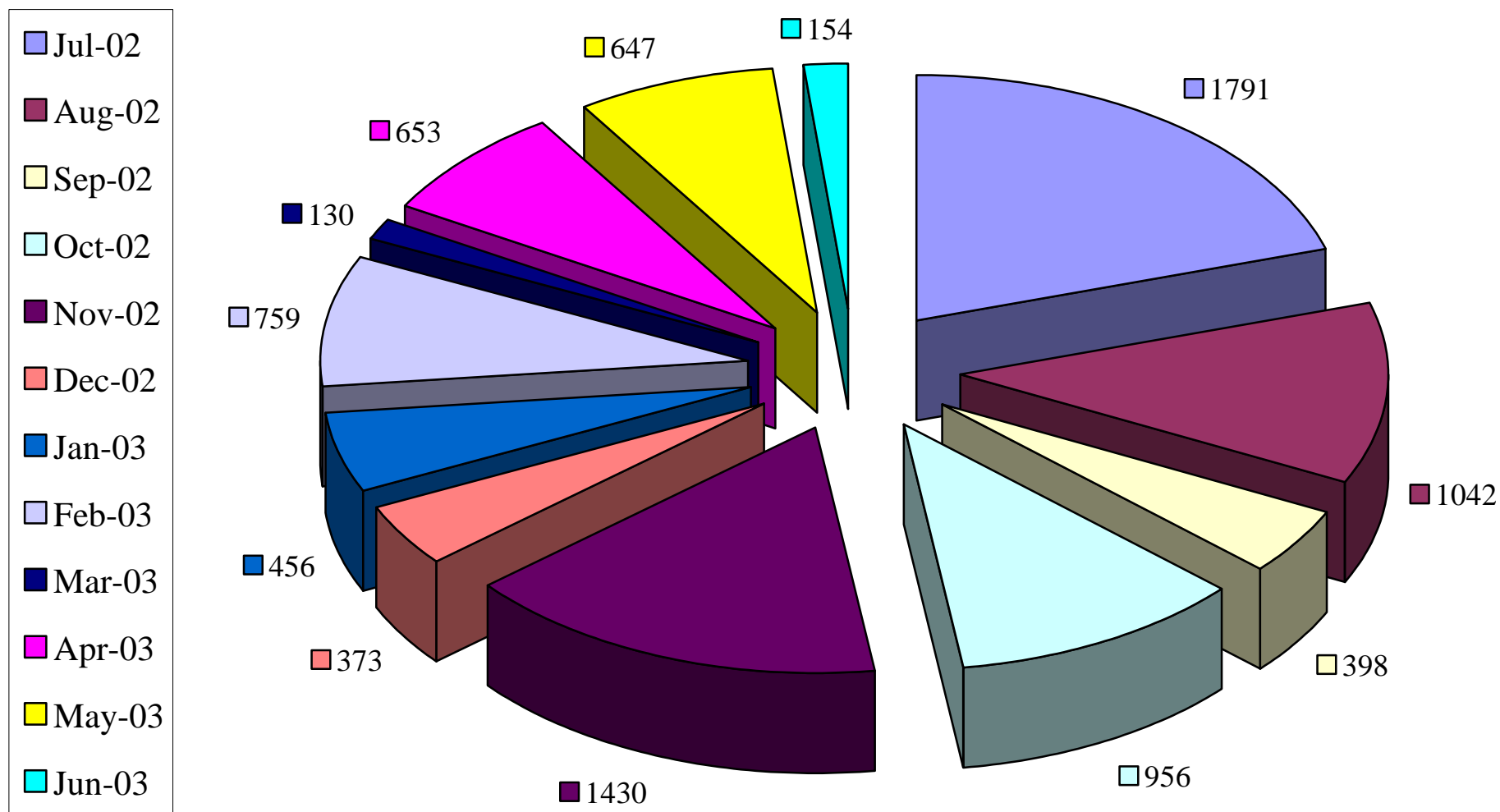


Distributions

Fiscal Year 2002-2003



Allocation Changes by Month



CLOSED PLAN
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2002
TABULATED BY YEAR OF RETIREMENT

Year of Retirement	No.	Monthly Pensions	
		Total	Average
Before 1950	22	\$14,273	\$4,016
1950-1959	87	48,283	5,082
1960	27	11,739	435
1961	36	15,317	426
1962	40	14,005	350
1963	38	13,789	363
1964	66	26,057	395
1965	60	21,072	351
1966	79	30,445	385
1967	94	36,745	391
1968	127	53,496	421
1969	165	75,543	458
1970	213	104,540	491
1971	285	144,307	506
1972	336	181,764	541
1973	452	262,786	581
1974	454	250,265	551
1975	438	245,845	561
1976	487	277,588	570
1977	561	336,814	600
1978	597	360,638	604
1979	665	403,568	607
1980	721	431,498	599
1981	717	437,576	610
1982	697	431,164	619
1983	761	466,552	613
1984	813	509,573	627
1985	1,159	773,670	668
1986	916	628,896	687
1987	1,065	775,445	728
1988	1,159	898,178	775
1989	917	741,759	809
1990	1,404	1,275,538	909
1991	1,346	1,313,573	976
1992	1,204	1,218,397	1,012
1993	1,257	1,368,433	1,089
1994	1,390	1,544,107	1,111
1995	1,719	1,987,746	1,151
1996	1,697	2,068,117	1,219
1997	1,477	1,833,222	1,241
1998	1,847	2,402,749	1,301
1999	1,677	2,335,814	1,393
2000	1,954	2,847,336	1,457
2001	1,980	3,102,376	1,567
2002	1,440	2,301,747	1,598
TOTALS	34,646	\$34,613,345	\$999

NEW PLAN
RETIRED MEMBERS AND BENEFICIARIES JUNE 30,2002
TABULATED BY YEAR OF RETIREMENT

Year of Retirement	No.	Monthly Pensions	
		Total	Average
1996	3	\$1,558	\$519
1997	3	1,526	509
1998	12	7,513	626
1999	16	17,392	1,087
2000	34	35,696	1,050
2001	20	25,559	1,278
2002	20	35,951	1,798
Totals	108	\$125,194	\$1,159

INCOMING CALL ANALYSIS REPORT

Fiscal Year Ending June 30, 2003

Calls Received by Member Services Center	56,207
Night Calls on Voice Mail	7,713
Average Speed of Answer (in seconds)	18
Incoming Calls Reaching Busy Tone	0%
Average Length of Conversation (in seconds)	157

Benchmarks

**Benefit Administration
Benchmarking Analysis**

March 18, 2003

**Indiana State Teachers
Retirement Fund**

Prepared March 18, 2003 by:



350 Bay St., Suite 800, Toronto, ON M5H 2S6
Tel: 416-369-0568 Fax: 416-369-0879
www.costeffectiveness.com

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The following 63 leading pension systems participate in CEM's Benefit Administration Benchmarking Service.

Current Participants

United States

Alaska
 Arizona
 CalPERS
 CalSTRS
 Colorado PERA
 Idaho PERS
 Illinois MRF
 Illinois TRS
 Indiana PERF
Indiana STRF
 Iowa PERS
 Kansas PERS
 Los Angeles County ERA
 Louisiana State ERS
 Maryland
 Massachusetts Teachers'
 Michigan MERS
 Michigan ORS
 Missouri State ERS
 New Jersey DP&B
 New York City Teachers'
 New York State & Local

North Carolina
 Ohio PERS
 Ohio Police & Fire
 STRS Ohio
 Oregon PERS
 Pennsylvania PSERS
 Ohio SERS
 South Carolina
 Texas MRS
 Texas ERS
 Virginia
 Washington State DRS
 Wisconsin

Canada

CIBC
 Defense Canada
 Local Authorities Pension Plan
 Ontario Municipal ERS
 OP Trust
 Ontario Teachers' Pension Plan
 Nova Scotia
 Public Works & Gov't Service

Australia

Australia Post
 ComSuper
 GESB Western Australia
 GSO Victoria
 Pillar Administration
 QSuper
 RBF Tasmania
 Telstra
 UniSuper

The Netherlands (excluded from this analysis)

ABP PABS
 Atos Origin
 Bpf Bouw
 BPF Schilders
 Bpf Textiel
 BPMT/ MN Services
 IBM
 PGGM
 PMI
 Relan Pensioen
 Shell Pensioenfond

The most relevant comparisons are to systems that are similar to you. Thus, your peer group is comprised of 16 U.S. participants closest to you in size.

Peer group for Indiana State TRF			
	<u>Actives</u>	<u>Annuityants</u>	<u>Total</u>
Alaska	45	26	71
ERS of Texas	151	51	202
Idaho PERS	62	24	86
Illinois MRF	165	71	236
Illinois TRS	156	68	224
Indiana State TRF	110	35	144
Iowa PERS	159	72	231
KPERS	154	56	210
LACERA	89	46	135
LASERS	65	34	99
Massachusetts TRS	89	35	124
Michigan MERS	37	17	54
MOSERS	59	22	81
Ohio P&F	26	23	49
Ohio SERS	120	66	186
STRS Ohio	206	121	327
Texas MRS	88	20	108
Average	105	46	151

The focus of the analysis is on understanding and quantifying how the following 7 factors drive costs.

**What you
do for your
members?**

**1. Activities
Performed**

(e.g., Paying Pensions,
Providing Estimates,
etc.)

**2. Service
Levels**

3. Quality

- a. Best Practice reviews
- b. Customer Satisfaction
- c. Accuracy

**What are
your
constraints?**

**4. Plan
Complexity**

5. Volumes

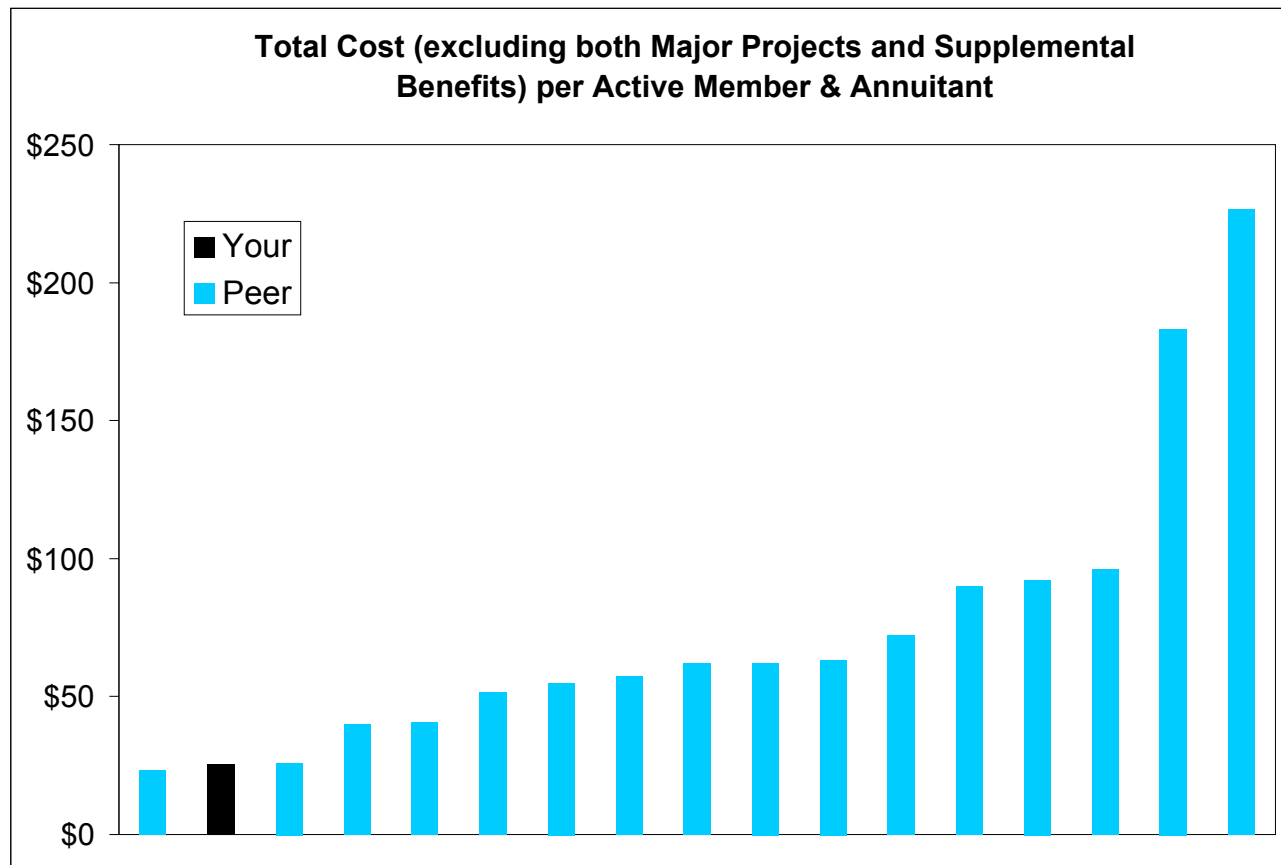
- a. Economies of scale
- b. Relative Workloads

**6. Cost
Environment**

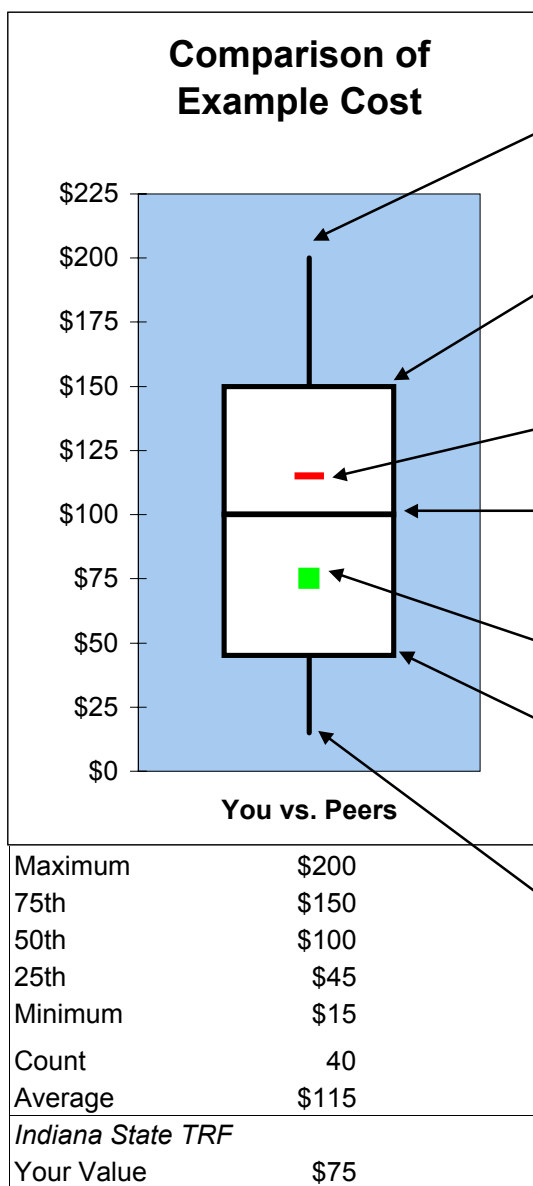
7. Systems

**Administrative
Costs per
Member**

Your Total Cost of \$25 per active member and annuitant is the second lowest of your peers. The peer median cost is \$62.



Our analysis frequently uses box and whisker graphs to summarize data, beginning on the following page. This is how to interpret the graphs.



Maximum. The top of the whisker represents the system with the maximum cost among the 40 peers. In this example the maximum is \$200.

75th percentile/ 3rd quartile/ three-quarter point. The top of the box represents the 75th percentile. In this example the 75th percentile is \$150. Thus three-quarters of the peers (or 30 of 40 in this example) have a cost below \$150 and one-quarter of the peers have a cost above \$150.

Average. The red bar represents the average cost of the 40 peers. In this example the average is \$115.

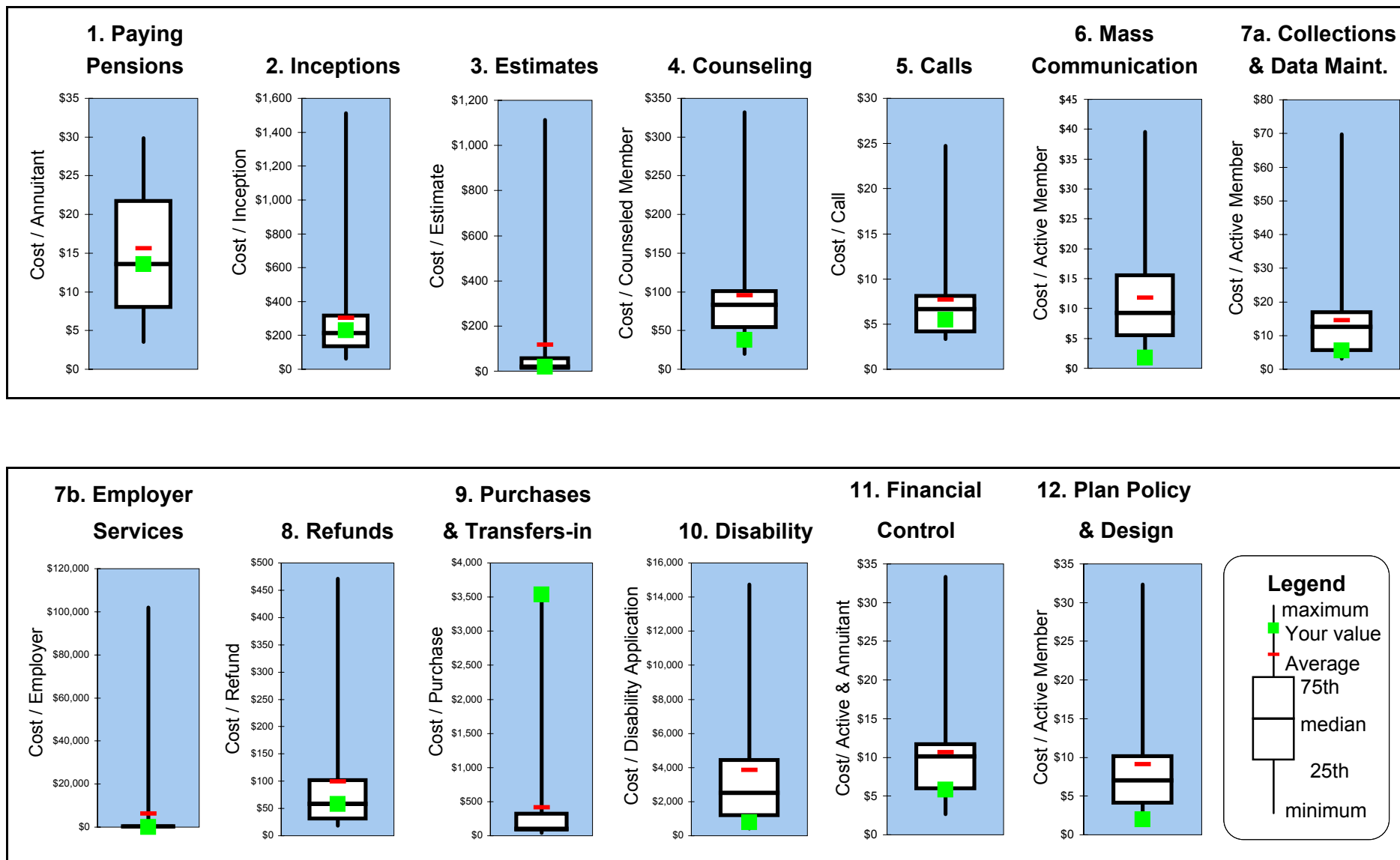
50th percentile/ median/ midpoint/ half-way point. The line through the center of the box represents the middle observation. In this example the midpoint is \$100. Thus 1/2 of the peers (or 20 of 40 in this example) have a cost below \$100 and the other 1/2 of the peers have a cost above \$100.

Your Cost. The green box represents your cost. In this example: \$75.

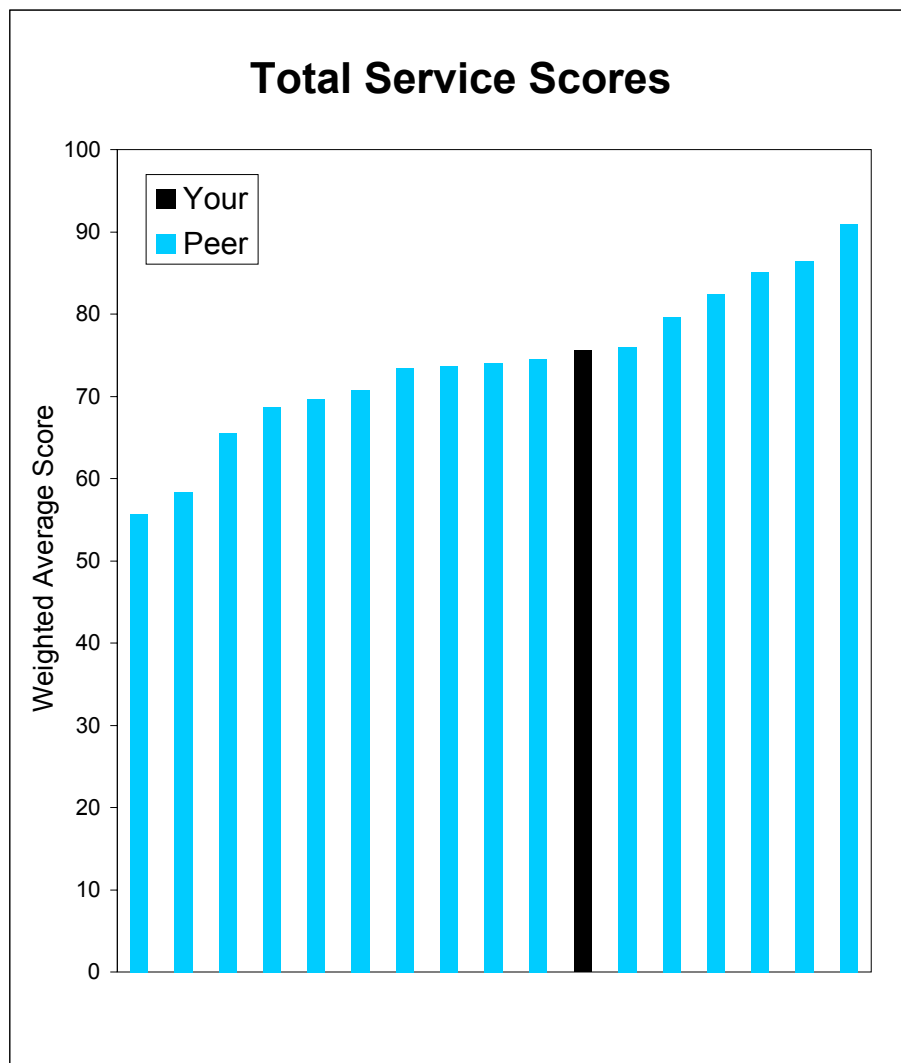
25th percentile/ 1st quartile/ one-quarter point. The bottom of the box represents the 25th percentile. In this example the 25th percentile is \$45. Thus one-quarter of the peers (or 10 of 40 in this example) have a cost below \$45 and three-quarters of the peers have a cost above \$45.

Minimum. The bottom of the whisker represents the system with the minimum cost among the 40 peers. In this example the minimum is \$15.

Your Unit Costs by Activity compare to your peers as follows:



Your Total Service Score is 76 out of 100. This is above your revised* score from last year of 67.



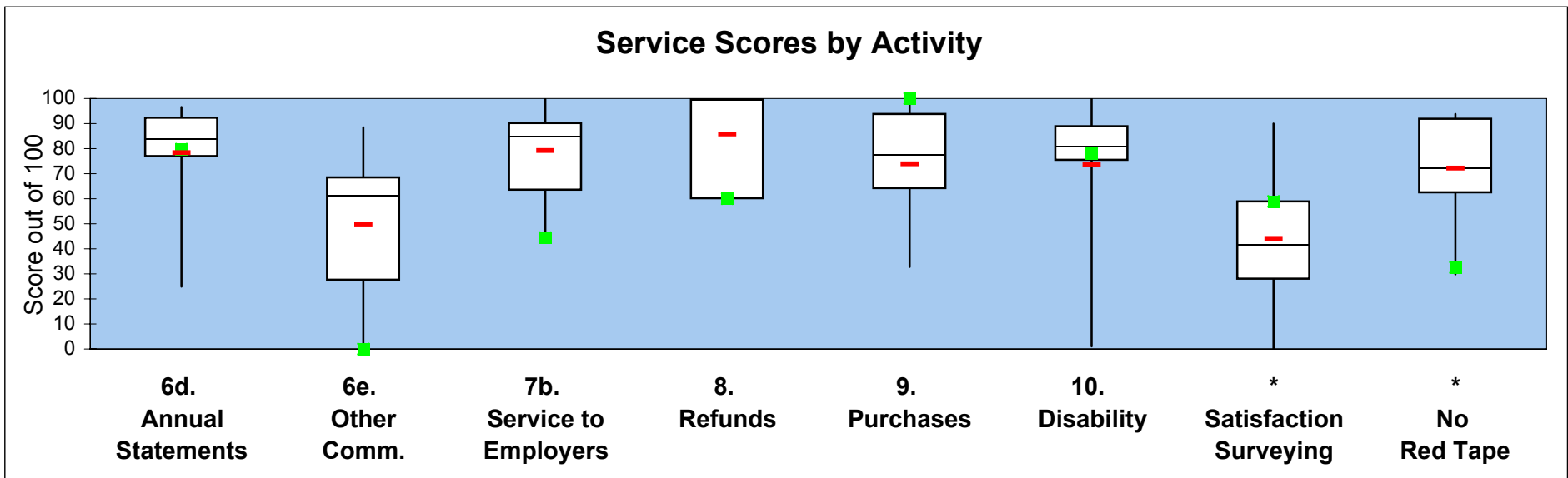
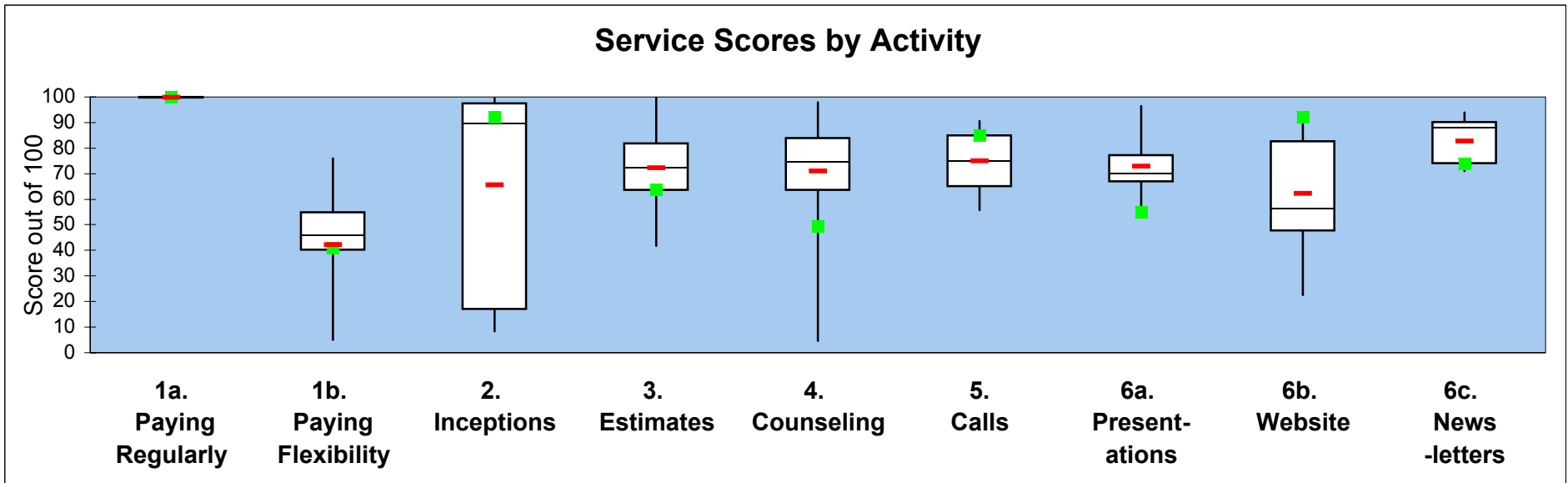
Your Total Service Score is the weighted average of your Service Scores for each Activity. Comparisons of your Service Scores for each Activity and a discussion of what you would have to do to improve your Score are shown on the following two pages.

Your relative rank is not nearly as important as understanding why you rank where you do. This is because:

- Service is defined as: "Anything a member would like, before considering costs." Because this definition ignores costs, high service is not always cost effective or optimal. For example, it is higher service to have a call center open 24 hours a day but no system can justify the expense.
- The weights used to determine the scores will not always match the relative importance your members attach to the criteria.

* Your Service Score from last year was revised to reflect additional service factors and slightly changed weightings.

Your Service Scores by Activity compare to your peers as follows:



It is not always cost effective to have a high Service Score.

Congratulations on your Service improvement this year. You could add a further 8 points (from 76 to 83) to your Total Service Score if you improved your performance in the following 2 activities:

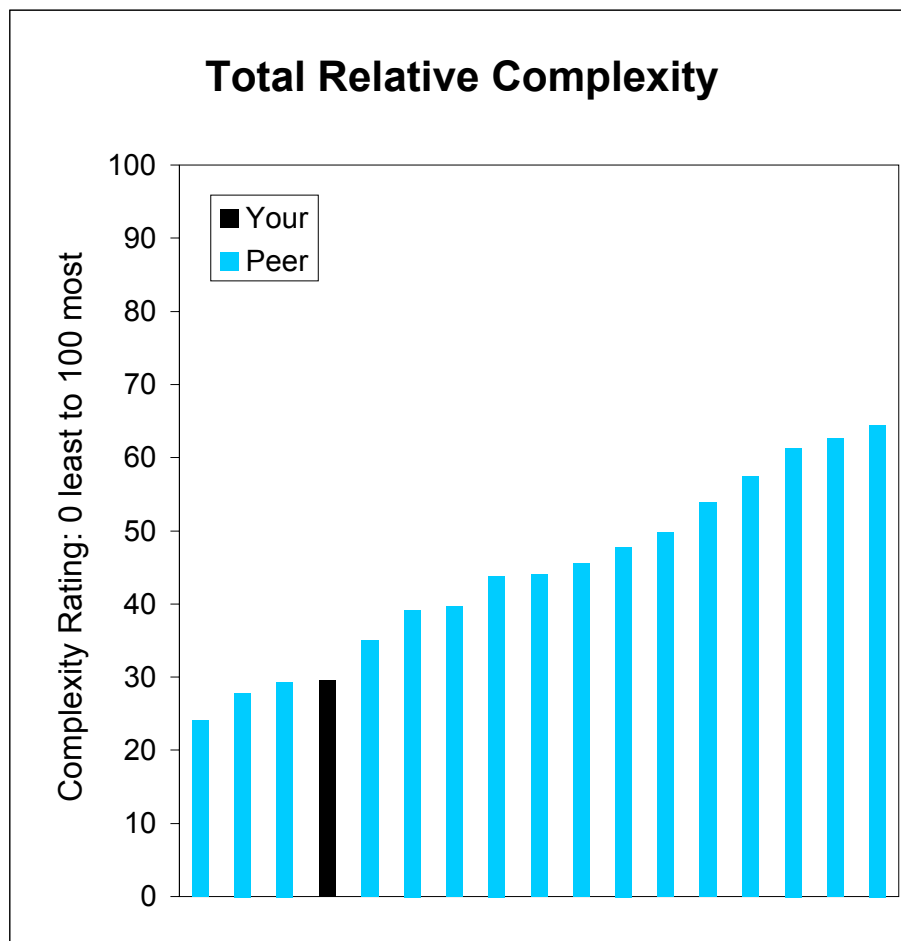
Counseling (+5.2 points)

- You do not offer any counseling in the field, whereas 65% of your peers do.
- You have limits on your pre-scheduled 1-on-1 inhouse counseling. For example, you require that members be within a certain time period of earliest possible retirement before requesting counseling - 94% of your peers do not.
- Your members typically wait 20 days until they can meet with a counselor after requesting a pre-scheduled counseling session, versus a peer median of 5 days.

Calls (+2.7 points)

- You have less system capability than your peers. For example, when a member calls in, your service reps do not have online access to (i) records of the member's previous calls to the system (35% of your peers do), (ii) knowledge based on-line help (35% of your peers do) or (iii) an immediate pension estimate for the member (53% of your peers do).
- You do not have an information line, whereas 35% of your peers do.
- You do not offer voicemail as an alternative to queueing, versus 35% of your peers who do.

Your Total Relative Complexity of 30 is below the peer median of 44.

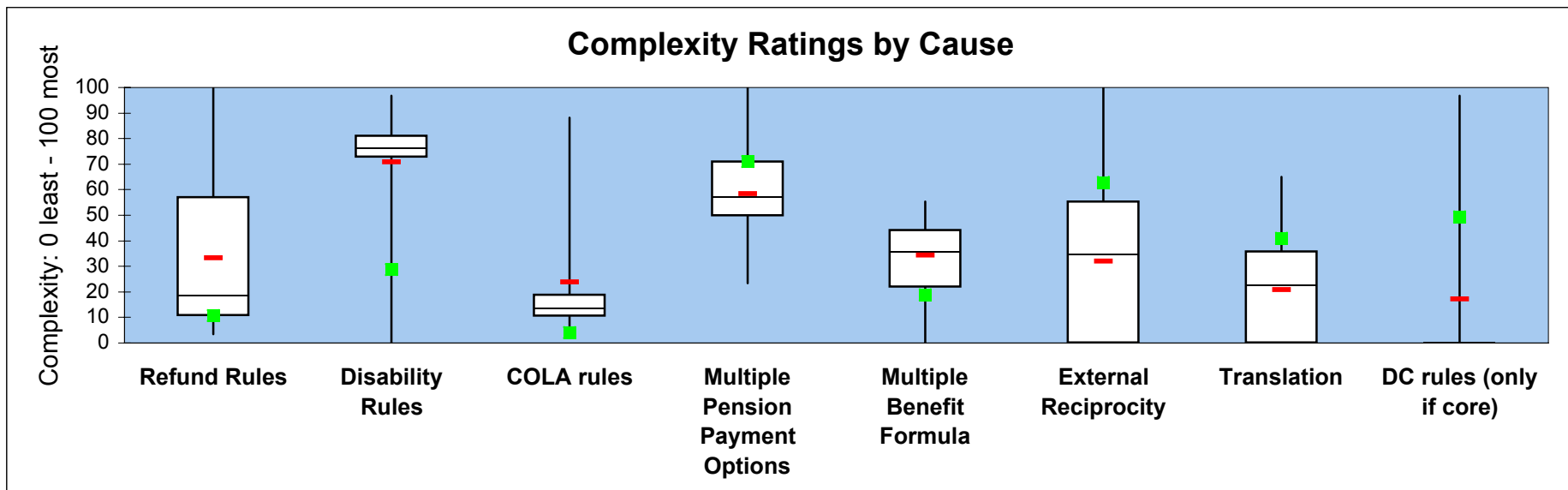
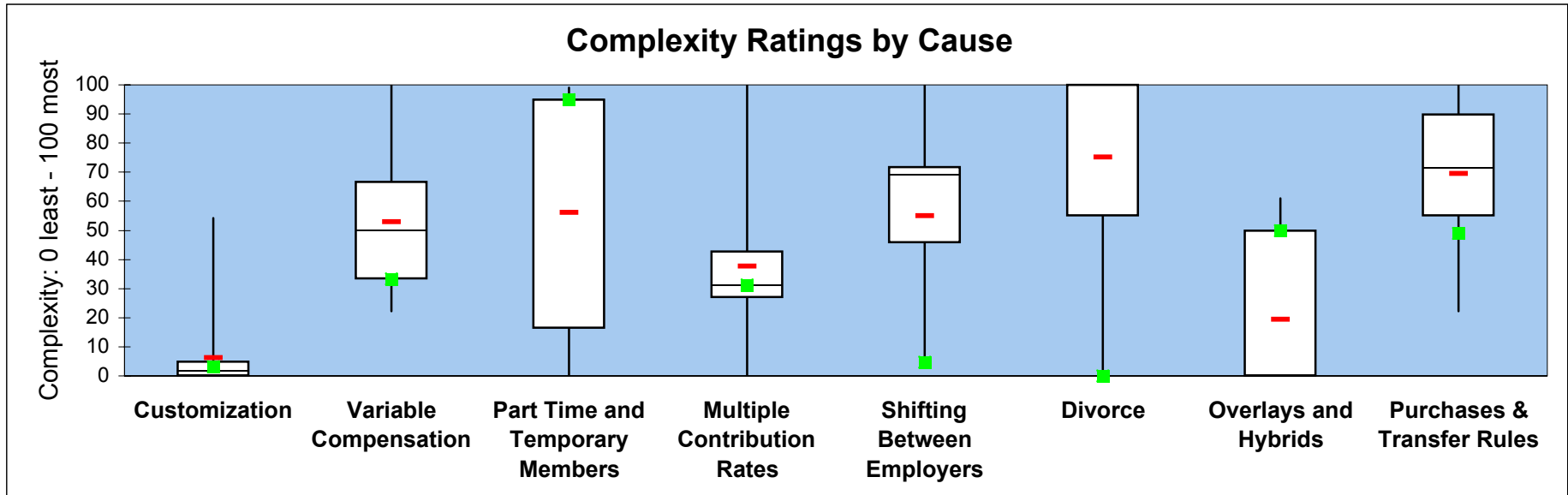


The Complexity Scores are relative scores. A low Relative Complexity Score does not mean that your system is not complex, rather it means that your system is relatively less complex than your peers. All retirement systems are extremely complex, so even the system that has a 0 Total Relative Complexity Score is still extremely complex.

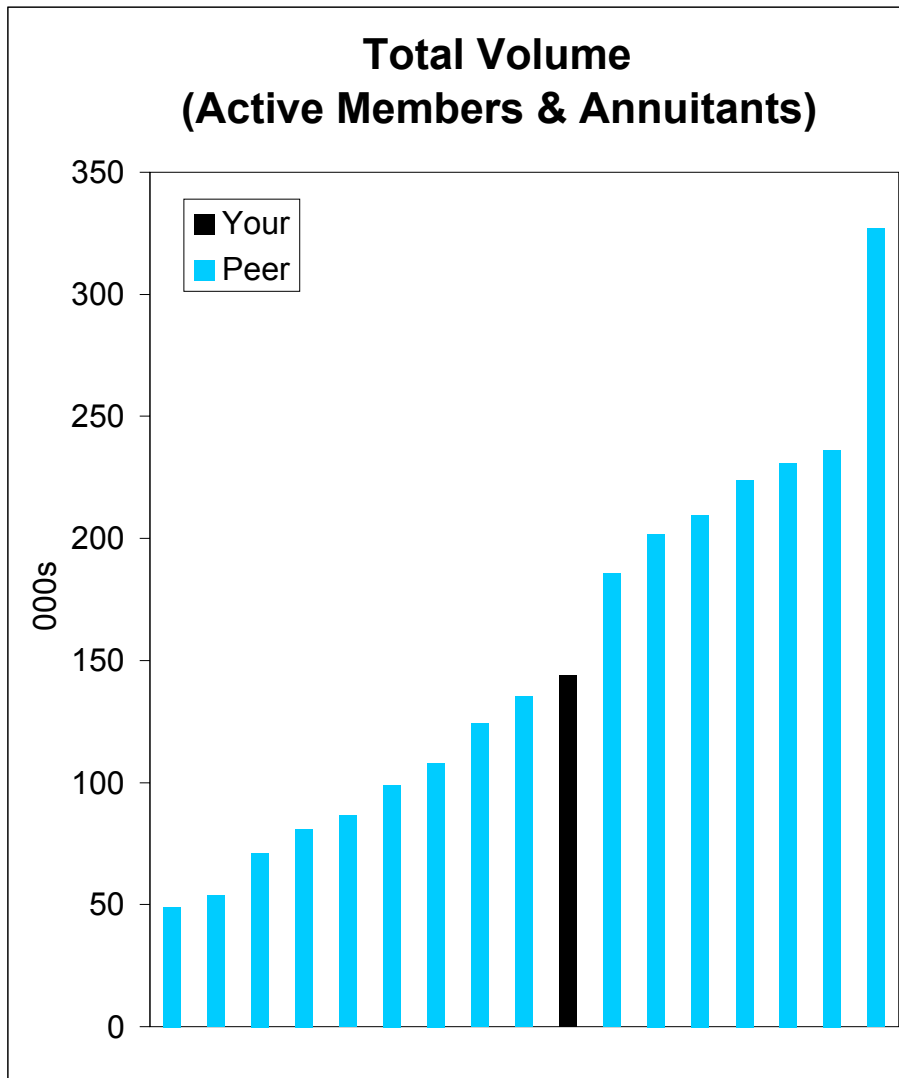
All systems are complex. This score is relative to other systems. Examples where you have lower relative Complexity include:

- **Multiple Benefit Formula.** (i) You use only 1 rule set to determine qualification for retirement (the peer maximum is 17 rule sets), (ii) you use only 1 salary definition (the peer maximum is 6 salary definitions) and (iii) you use only 1 formula percentage rule set (the peer maximum is 10 rule sets).
- **Disability.** (i) You rely on a Social Security ruling to determine whether a member qualifies for long-term disability (92% of your peers manage their own processes), (ii) the amount of a member's disability benefit does not vary depending on whether the disability is work or non-work related (69% of your peers must deal with varying amounts), and (iii) you do not reduce disability payments if the member has other sources of income while receiving a disability benefit (50% of your peers reduce the benefit).

Your Relative Complexity by underlying cause compares to your peers as follows:



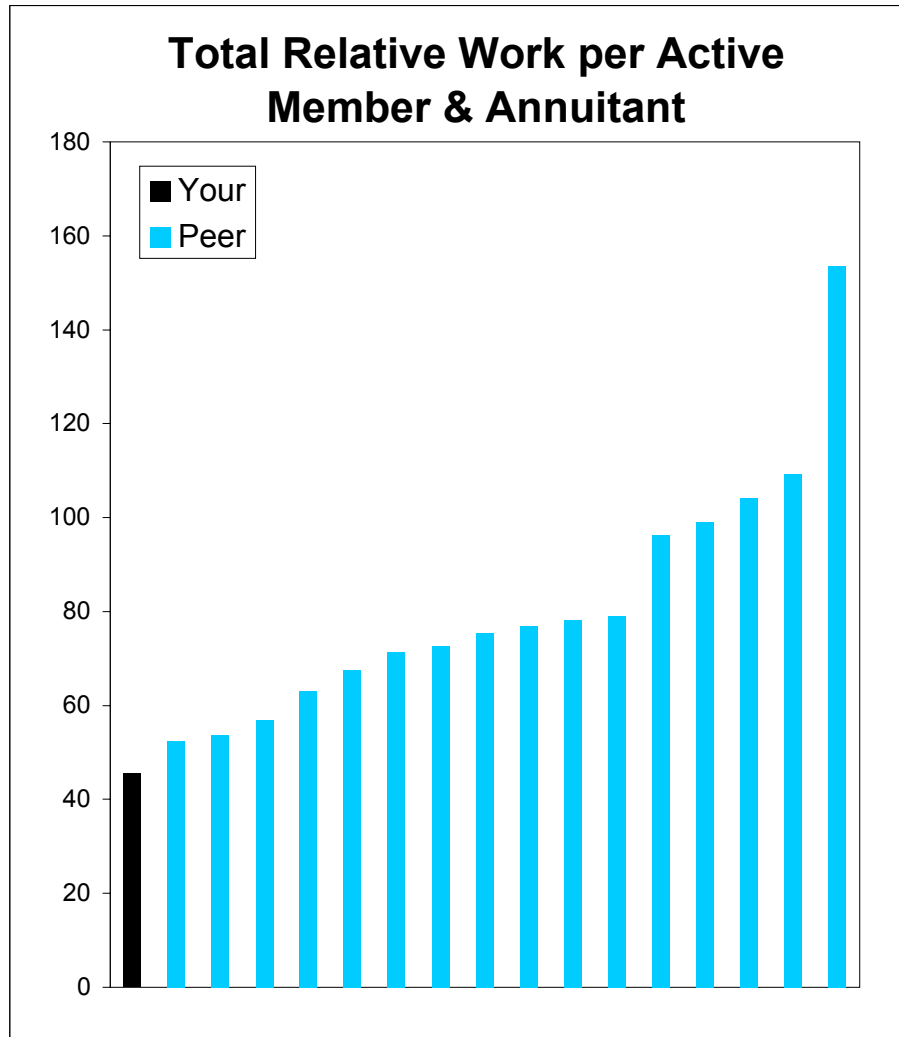
Your total active members and annuitants of 144,045 is slightly higher than the peer median of 135,400.



Total volume is the sum of your active members and annuitants. We did not include inactive members, because for most systems, the costs associated with inactives are small. Also, the work caused by inactive members is captured in our relative work measure summarized on the next page.

There is a relationship between cost per member and total volumes. The systems with the fewest members suffer a cost disadvantage relative to the systems with the most members.

Your Total Relative Work per active member and annuitant is the lowest of your peer group.



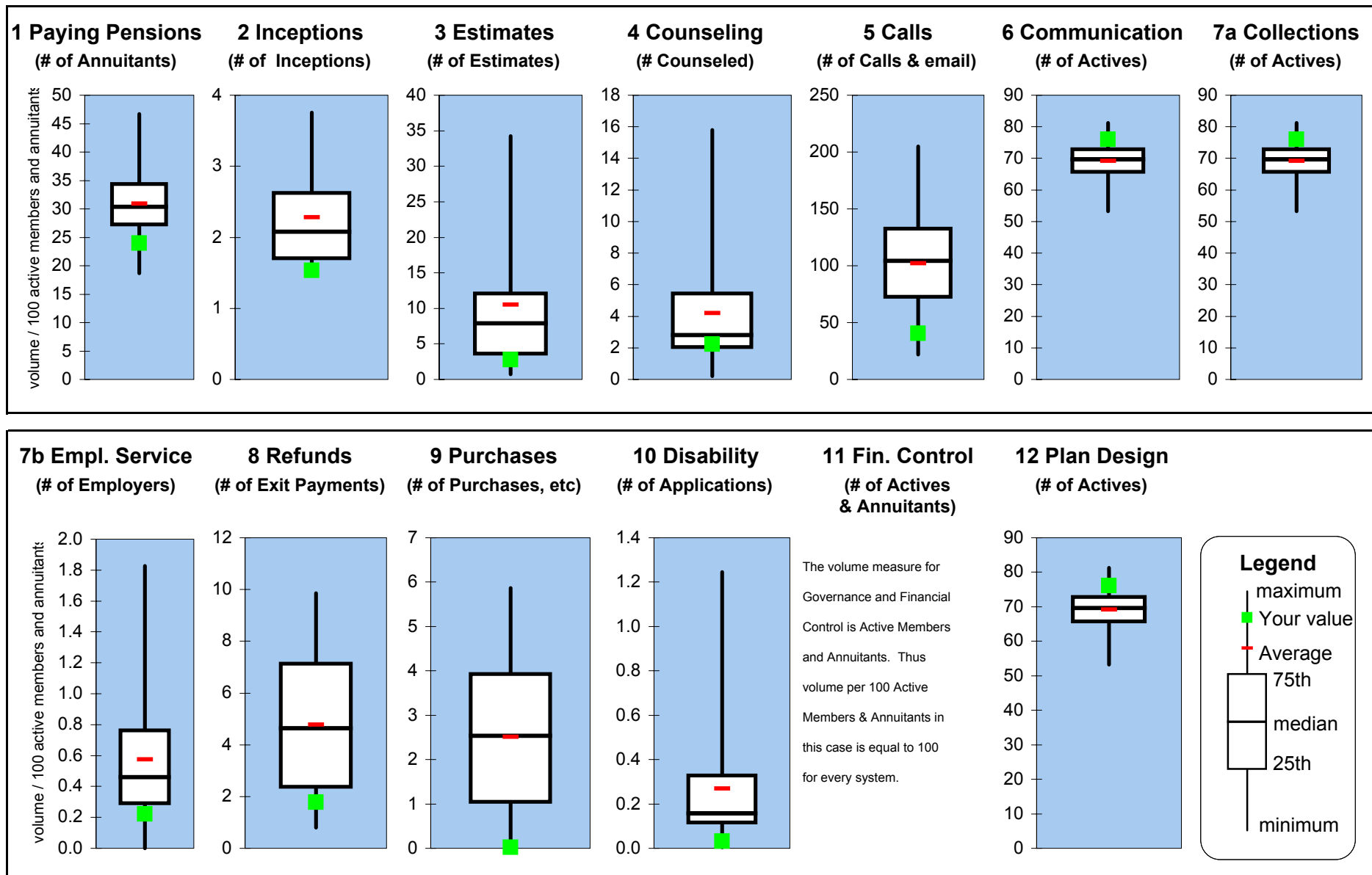
Your Total Relative Work depends on both Activity Volumes and the amount of effort expended per unit of volume.

1. Activity Volumes: The relationship between work and activity volumes is straightforward. If your activity volumes increase then your work increases. Activity volumes can vary widely between systems. For example, you counseled 2.2 members for every 100 active members & annuitants. This compares to a low of 0.2 and a high of 15.8 for your peers.

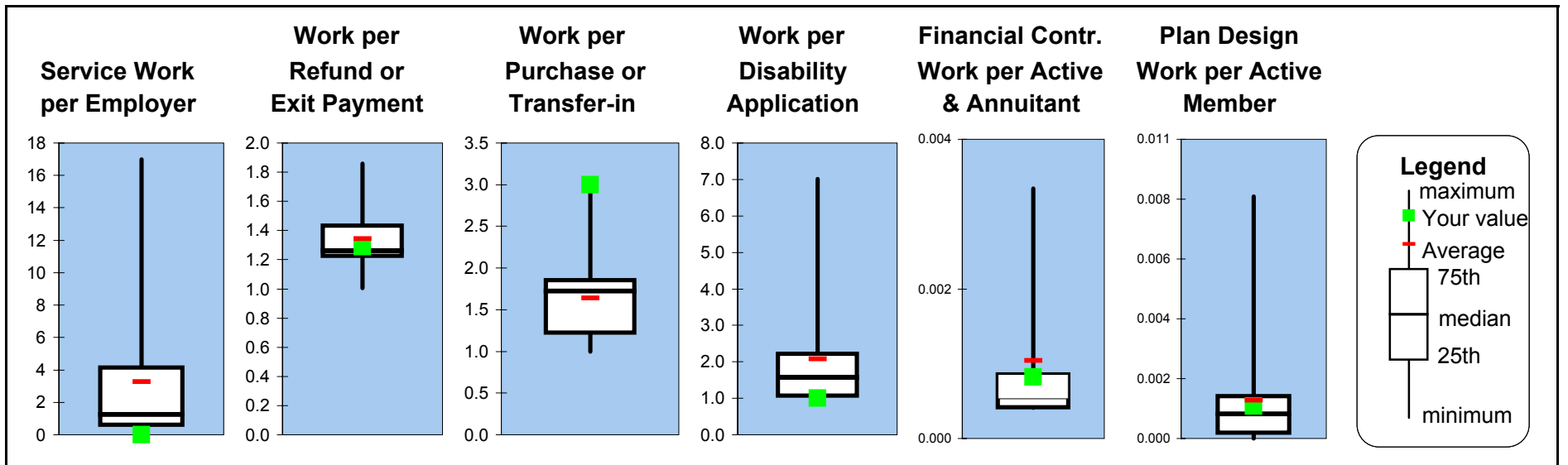
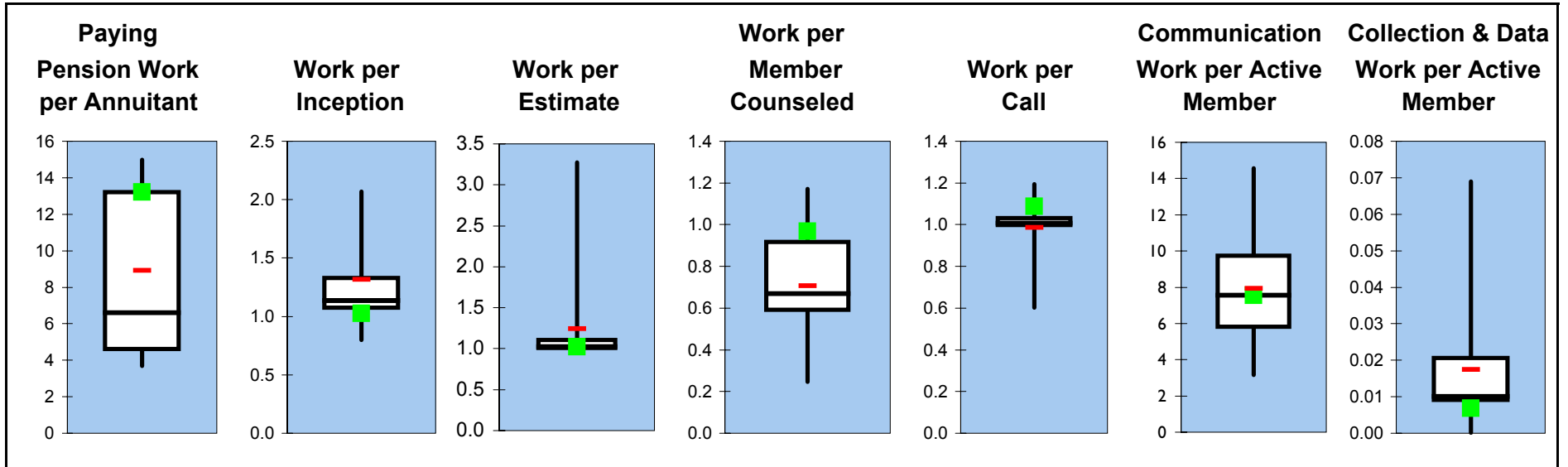
2. Effort Expended. Effort is less obvious. The effort expended per unit of activity volume varies widely. For example, a member counseled 1-on-1 in the field requires more effort than a member counseled in a small-group session in-house. Therefore we adjust for difference in effort expended. Your 'Work per Member Counseled' was 1.0. This compares to a low of 0.2 and a high of 1.2. In other words you did 3.9 times more work per member counseled than your lowest peer, and 83% of the work per member counseled of your highest peer.

Your Activity Volumes and Work per Unit of Activity Volume are summarized on the next two pages.

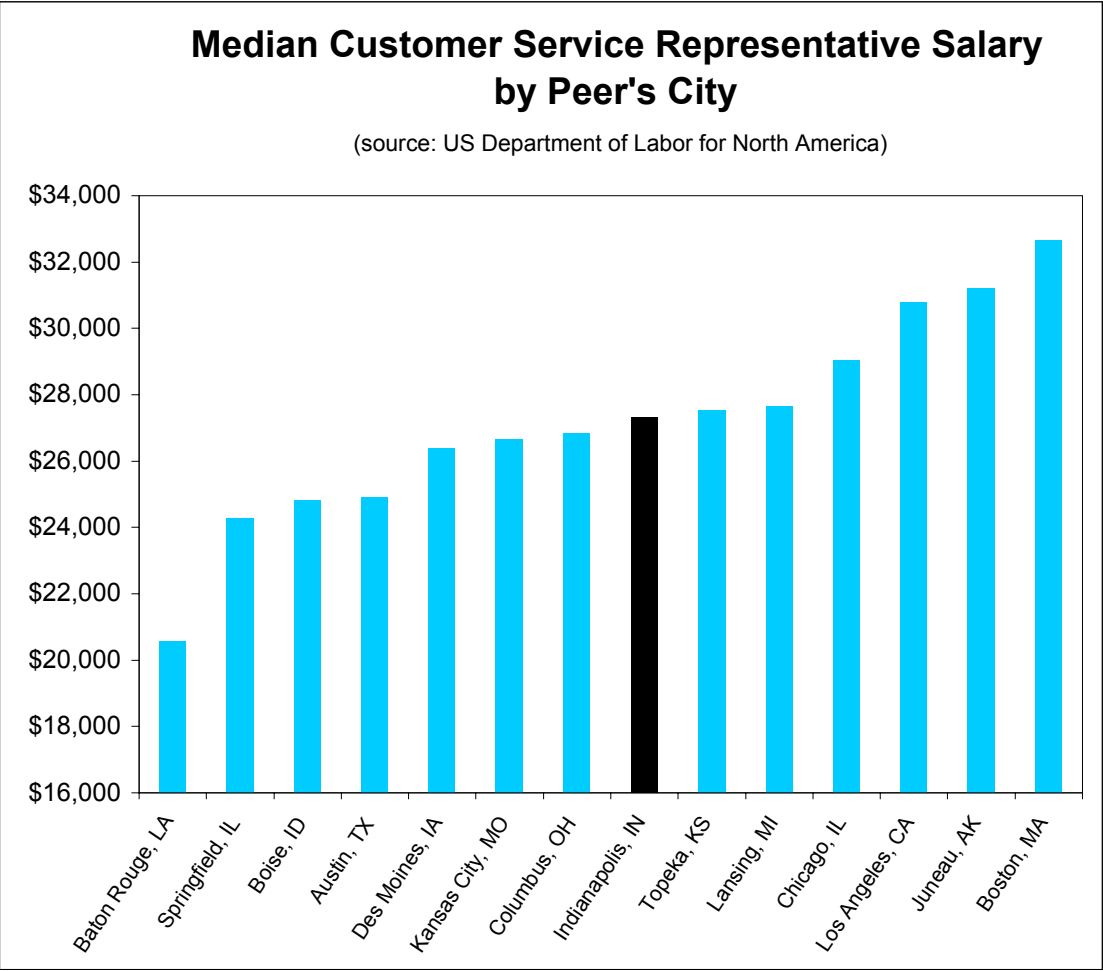
Your Activity Volumes per 100 active members and annuitants compare to your peers as follows:



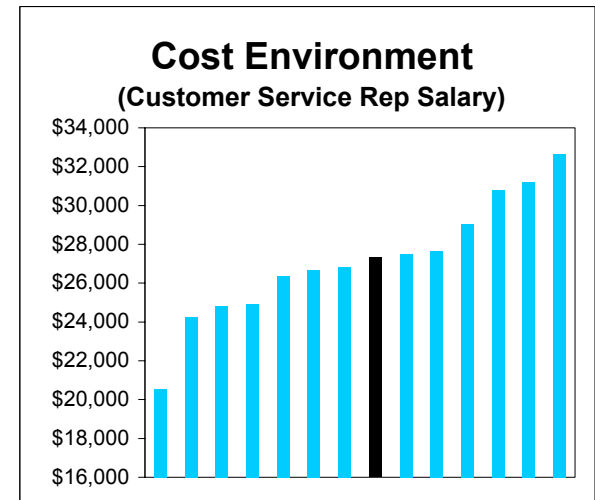
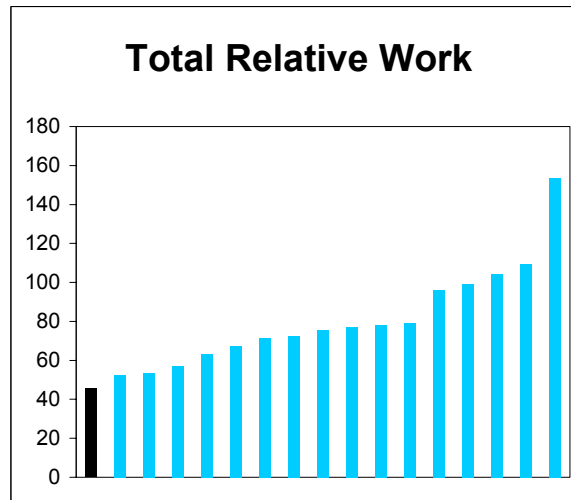
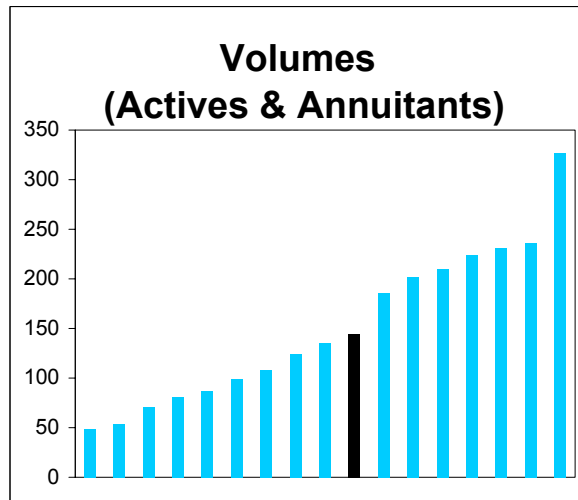
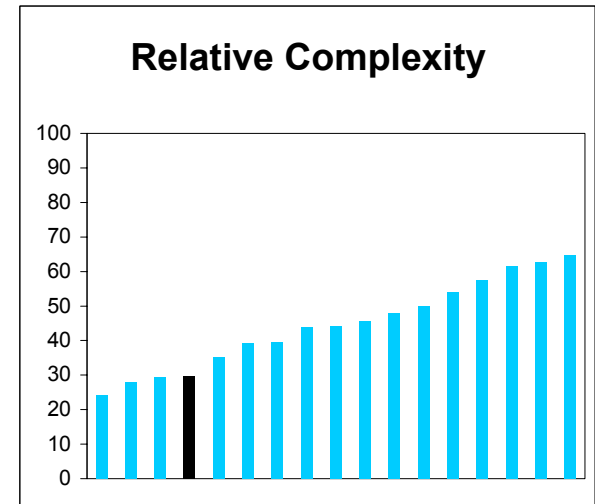
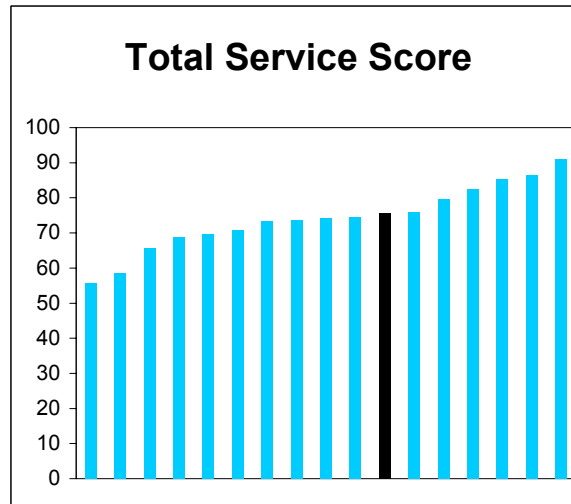
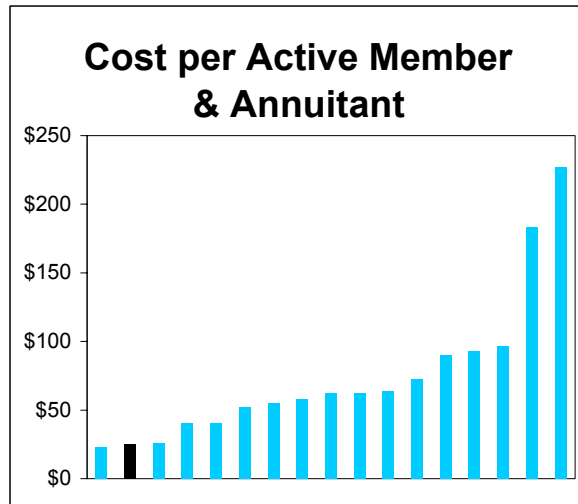
Your relative effort expended for each unit of activity volume compares to your peers as follows:



The Cost Environment that you operate in is close to the peer median.



Your low cost reflects, in part, the impact of lower Complexity and Work, plus slightly higher Volumes



Operations, Accomplishments and Goals

Operations, Accomplishments, and Goals

Fiscal Year 2004

Goals and Accomplishments

- **Implementation of Voluntary Pre-Tax Contribution Option for Active Members.**
Ongoing
- **Improve communication with potential retirees**
Ongoing - Began presenting pre-retirement workshops via video conferencing.
- **Continued Improvement of Fund's website**
Ongoing
- **Improve employer-fund communications**
Ongoing - Implemented employer only quarterly newsletter. Implemented employer information session via video conferencing.
- **Discover more ways of utilizing electronic processes to reach goal of being paperless**
Ongoing - Added the capability to view monthly direct deposit receipts on the web . Members may now elect out of receiving paper receipts via mail. Members may also opt out of receiving paper copies of quarterly statements and view them on the web.
- **Introduce system of telephone counseling to save member travel time**
Completed
- **Finish transition to Siris (State of Indiana Retirement Information System)**
Completed
- **Issue quarterly benefit entitlement statements to active members**
Completed

Fiscal Year 2003

Goals and Accomplishments

- **Continue Benchmarking process**
Ongoing
- **Audit of Member Health Plan**
Completed
- **New asset allocation study for employer funds**
Completed
- **Diversification into public securities, including venture capital and real estate**
Completed
- **Continue to provide quality service and enhance system operations**
Ongoing
- **Develop member survey for services**
Ongoing
- **Change Health Plan and Advisor**
Changing Health Plan is in process. A Health Plan Advisor has been chosen.
- **Continue improvement of member education processes**
Ongoing
- **Review work processes and change for efficiency and effectiveness**
Ongoing
- **Enable electronic reporting with employers.**
Completed - Employers can deposit funds through EFT, and can use electronic messaging to provide wage and contribution reports.

Fiscal Year 2002

Goals and Accomplishments

- **Improve benefit estimate format and clarity**
Ongoing
- **Enhance call center performance by utilizing the latest technology**
Ongoing
- **Issue an annual benefit entitlement statement to active members**
Completed
- **Complete feasibility and implementation study for obtaining record-keeping services for Annuity Savings Investment Account program**
Ongoing
- **Develop a process for employers to report employee contributions on a “payroll by payroll” basis**
Ongoing
- **Continue Benefits Management Benchmarking process**
Ongoing - See details in “Benchmarking” section.
- **Establish in-service programs for staff**
Ongoing
- **Begin and complete a Benchmarking of Investment Processes**
Completed
- **Continue improvement of member education processes**
Ongoing - Implemented use of educational information on the website and quarterly newsletters.
- **Work with PERF to jointly improve out-reach programs**
Ongoing
- **Seek to develop a variable annuity option**
Completed - A variable annuity option was found to be not viable.

Fiscal Year 2001

Goals and Accomplishments

- **Pursue and complete an Investment Fiduciary Audit**
Completed
- **Begin and complete a Benefits Management Benchmarking process**
Completed
- **Improve home page on the World Wide Web**
Completed - Received commendation from CEM Benchmarking Service.
- **Allow members to access their quarterly statements via the internet**
Completed
- **Allow school corporations to transmit their employer payment via the Internet.**
Completed
- **Seek to develop retirement outreach programs using laptops and digital connections to meet with prospective retirees in their district**
Full development will begin when the SIRIS project is completed.
- **Develop the process to ensure adequate control and audit trails are incorporated in the computer system. Enhance the monitoring and integrity of employer data utilized in retirement benefits. Develop criteria for and recruit internal auditing support staff.**
On going - Initiated the examination and evaluation of the adequacy and effectiveness of the Plan's system of internal control. Implemented the internal audit process to examine and evaluate the investment, accounting, financial reporting and member retirement benefit practices established to ensure compliance with policies, plans, procedures, laws and regulations and internal control. Administrative policies and procedures have been documented to ensure management directives are implemented.
- **Enhance investment options of employer assets**
Completed

**INDIANA STATE TEACHERS' RETIREMENT FUND
150 W. MARKET STREET, SUITE 300
INDANAPOLIS, IN 46204
(317) 232-3860**